

City of Lowell

Lowell, Michigan

Financial Statements

For the Year Ended June 30, 2008

Auditing Procedures Report

Instructions and MuniCodes

=Required Fields

Reset Form

Issued under Public Act 2 of 1968, as amended (V1.08)

| | | | | | | | |
|---------------------------|----------------|------------------------------|--------------|-----------------------|------|-------------|----------|
| Unit Name | CITY OF LOWELL | County | KENT | Type | CITY | MuniCode | 41-2-060 |
| Opinion Date-Use Calendar | Dec 29, 2008 | Audit Submitted-Use Calendar | Dec 31, 2008 | Fiscal Year End Month | 06 | Fiscal Year | 2008 |

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No."

| | | |
|-------------------------------------|--------------------------|--|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements? |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets? |
| <input type="checkbox"/> | <input type="checkbox"/> | 3. Were the local unit's actual expenditures within the amounts authorized in the budget? |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury? |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 5. Did the local unit adopt a budget for all required funds? |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 6. Was a public hearing on the budget held in accordance with State statute? |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division? |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act? |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy? |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.) |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.) |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 12. Is the local unit free of repeated reported deficiencies from previous years? |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 13. Is the audit opinion unqualified? |
| | | 14. If not, what type of opinion is it? NA |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)? |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 16. Has the board or council approved all disbursements prior to payment as required by charter or statute? |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 17. To your knowledge, were the bank reconciliations that were reviewed performed timely? |
| <input type="checkbox"/> | <input type="checkbox"/> | 18. Are there reported deficiencies? |
| | | 19. If so, was it attached to the audit report? |

| | | |
|----------------------------|--------------------------|-----------------|
| General Fund Revenue: | <input type="checkbox"/> | \$ 2,713,913.00 |
| General Fund Expenditure: | <input type="checkbox"/> | \$ 2,310,321.00 |
| Major Fund Deficit Amount: | | \$ 0.00 |

| | | |
|--|--------------------------|-----------------|
| General Fund Balance: | <input type="checkbox"/> | \$ 91,069.00 |
| Governmental Activities Long-Term Debt (see instructions): | <input type="checkbox"/> | \$ 5,454,995.00 |

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (reported deviations).

| | | | | | |
|--------------------|-----------------------------|-----------------------|----------------------|--------------------------|-------------------|
| CPA (First Name) | STEVEN | Last Name | THOMPSON | Ten Digit License Number | 1101012375 |
| CPA Street Address | 356 EAST MAIN | City | SARANAC | State | MI |
| | | Zip Code | 48881 | Telephone | +1 (616) 642-9467 |
| CPA Firm Name | BIGGS, HAUSSERMAN, THOMPSON | Unit's Street Address | 301 EAST MAIN STREET | Unit's City | LOWELL |
| | | | | Unit's Zip | 49331 |

City of Lowell

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Independent Auditor's Report



Independent Auditor's Report

Honorable Mayor and
Members of the City Council
City of Lowell, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lowell, Michigan, as of and for the year ended June 30, 2008 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lowell, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Lowell Light and Power, which represents 59 percent, 55 percent, and 74 percent, respectively, of the assets, net assets, and revenues of the business-type activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Lowell Light and Power, is based on the report of the other auditors.


We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lowell, Michigan as of June 30, 2008, and respective changes in financial position and cash flows, where applicable, thereof for the year then ended and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2008 on our consideration of the City of Lowell's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3-13 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Lowell's basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the City of Lowell's basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of the other auditors, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Biggs, Hausserman, Thompson & Dickinson".

Biggs, Hausserman, Thompson & Dickinson, P.C.
Certified Public Accountants
December 29, 2008

Management's Discussion and Analysis

City of Lowell
Management's Discussion and Analysis
June 30, 2008

As management of the City of Lowell, we offer readers of the City of Lowell financial statements this narrative overview and analysis of the financial activities of the City of Lowell for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

2008 was a year of significant activity at the City including:

- Reconstruction of the remainder of Gee Drive
- Establishment of the LCTV Endowment Fund
- Finished construction of a building addition to the firebarn to house ambulance personnel.
- Purchased new police cruisers
- Purchased new vehicles for water and cemetery departments

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Lowell financial statements. The City of Lowell basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Lowell finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the city of Lowell assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

City of Lowell
Management's Discussion and Analysis
June 30, 2008

Both of the government-wide financial statements distinguish functions of the City of Lowell that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Lowell include public safety, highways, public works, and general government services. The business-type activities of the City of Lowell include wastewater, water, airport, cable T.V. and light and power services.

The government-wide financial statements include not only the City of Lowell itself (known as the *primary government*), but also legally separate – (the building authority – component unit) – for which the City of Lowell is financially accountable. Financial information for this *component unit* is blended with the City as both a capital projects and a debt service fund. This report also includes information for Downtown Development Authority also legally separate (component unit) – for which the City of Lowell is financially accountable. Financial information for this *component unit* is discretely presented.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Lowell, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Lowell can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

City of Lowell
Management's Discussion and Analysis
June 30, 2008

The City of Lowell maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, which is considered to be a major fund. Data from the other six governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Lowell adopts an annual appropriated budget for its general and special revenue finds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

Proprietary funds. The City of Lowell maintains eight different proprietary funds. Six *enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City also has two internal services funds to account for those services provided internally on a cost reimbursement basis. The internal services funds are included in the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the wastewater, water, airport, cable T.V., cable T.V. sale and light and power funds, all of which are considered to be major funds of the City of Lowell.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City of Lowell's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discuss and analysis.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

City of Lowell
Management's Discussion and Analysis
June 30, 2008

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Lowell, assets exceeded liabilities by \$13,633,352 at the close of the most recent fiscal year.

By far the largest portion of the City of Lowell net assets reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City of Lowell uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Lowell investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

| | Governmental Activities | | Business-type Activities | | Total | |
|--|--------------------------------|---------------------|---------------------------------|----------------------|----------------------|----------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Current and other assets | \$ 731,535 | \$ 765,218 | \$ 6,123,405 | \$ 8,193,123 | \$ 6,854,940 | \$ 8,958,341 |
| Capital assets | 6,800,164 | 6,796,069 | 13,732,197 | 14,517,040 | 20,532,361 | 21,313,109 |
| Total assets | 7,531,699 | 7,561,287 | 19,855,602 | 22,710,163 | 27,387,301 | 30,271,450 |
| Long-term liabilities outstanding | 5,374,091 | 5,466,133 | 6,818,920 | 7,198,511 | 12,193,011 | 12,664,644 |
| Other liabilities | 370,753 | 490,707 | 1,190,185 | 1,044,770 | 1,560,938 | 1,535,477 |
| Total liabilities | 5,744,844 | 5,956,840 | 8,009,105 | 8,243,281 | 13,753,949 | 14,200,121 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 1,426,073 | 1,329,936 | 7,226,104 | 7,318,529 | 8,652,177 | 8,648,465 |
| Restricted | 333,282 | 309,455 | 518,465 | 505,624 | 851,747 | 815,079 |
| Unrestricted | 27,500 | (34,944) | 4,101,928 | 6,642,729 | 4,129,428 | 6,607,785 |
| Total net assets | \$ 1,786,855 | \$ 1,604,447 | \$ 11,846,497 | \$ 14,466,882 | \$ 13,633,352 | \$ 16,071,329 |

City of Lowell
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Net assets of governmental activities at year-end have been restricted primarily by funding sources for Major Streets, Local Streets, Historic District Commission, and Cemetery Trust Corpus. Of the net asset balance at year end, 80% is invested in capital assets net of related debt, 18% is restricted for other purposes and 2% is unrestricted and available for general City operations.

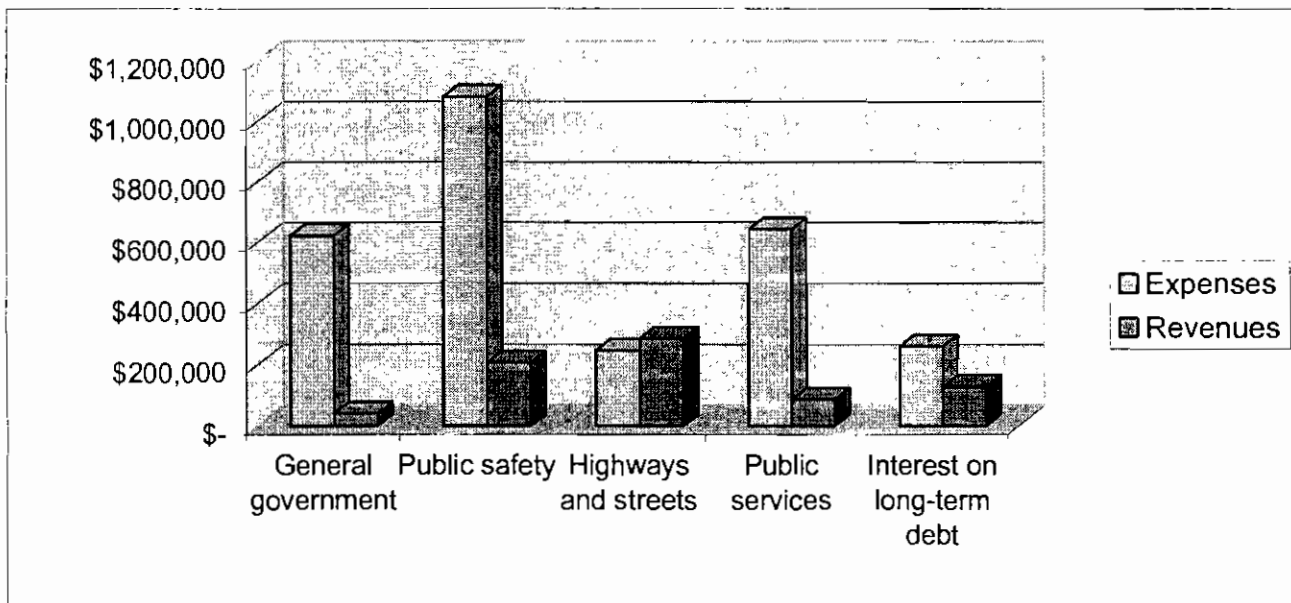
| | Governmental Activities | | Business-Type Activities | | Total | |
|--|--------------------------------|--------------------|---------------------------------|---------------------|---------------------|---------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Revenue: | | | | | | |
| Program revenue: | | | | | | |
| Charges for services | \$ 230,597 | \$ 390,880 | \$ 7,707,439 | \$ 8,948,683 | \$ 7,938,036 | \$ 9,339,563 |
| Operating grants and contributions | 418,658 | 291,951 | 0 | 0 | 418,658 | 291,951 |
| Capital grants and contributions | 96,640 | 137,809 | 0 | 44,000 | 96,640 | 181,809 |
| General revenue: | | | | | | |
| Property taxes | 1,744,213 | 1,700,698 | 0 | 0 | 1,744,213 | 1,700,698 |
| State shared revenue | 393,143 | 393,143 | 0 | 0 | 393,143 | 393,143 |
| Other | 152,789 | 56,346 | 235,314 | 192,281 | 388,103 | 248,627 |
| Total revenue | 3,036,040 | 2,970,827 | 7,942,753 | 9,184,964 | 10,978,793 | 12,155,791 |
| Governmental activities: | | | | | | |
| General government | 622,770 | 600,665 | 0 | 0 | 622,770 | 600,665 |
| Public safety | 1,081,851 | 1,129,150 | 0 | 0 | 1,081,851 | 1,129,150 |
| Highways and streets | 245,540 | 241,189 | 0 | 0 | 245,540 | 241,189 |
| Public services | 643,573 | 586,965 | 0 | 0 | 643,573 | 586,965 |
| Interest on long-term debt | 259,898 | 264,514 | 0 | 0 | 259,898 | 264,514 |
| Total expenses - governmental activities | 2,853,632 | 2,822,484 | 0 | 0 | 2,853,632 | 2,822,484 |
| Business-type activities: | | | | | | |
| Airport | 0 | 0 | 39,223 | 43,923 | 39,223 | 43,923 |
| Light & Power | 0 | 0 | 6,116,983 | 6,336,966 | 6,116,983 | 6,336,966 |
| Cable T.V. | 0 | 0 | 0 | 1,264,430 | 0 | 1,264,430 |
| Sale of Cable T.V. | 0 | 0 | 46,049 | 0 | 46,049 | 0 |
| Waste Water | 0 | 0 | 850,376 | 833,022 | 850,376 | 833,022 |
| Water | 0 | 0 | 734,909 | 759,340 | 734,909 | 759,340 |
| Total expenses- business-type activities | 0 | 0 | 7,787,540 | 9,237,681 | 7,787,540 | 9,237,681 |
| Extraordinary item-transfer to GRCF | 0 | 0 | (2,775,598) | 2,698,396 | (2,775,598) | 2,698,396 |
| Changes in net assets | 182,408 | 148,343 | (2,620,385) | 2,645,679 | (2,437,977) | 2,794,022 |
| Net assets - beginning of year | 1,604,447 | 1,456,104 | 14,466,882 | 11,821,203 | 16,071,329 | 13,277,307 |
| Net assets - end of year | \$1,786,855 | \$1,604,447 | \$11,846,497 | \$14,466,882 | \$13,633,352 | \$16,071,329 |

City of Lowell
Management's Discussion and Analysis
June 30, 2008

Governmental activities. Governmental activities increased the City's net assets by \$182,408. Key elements of this increase are as follows:

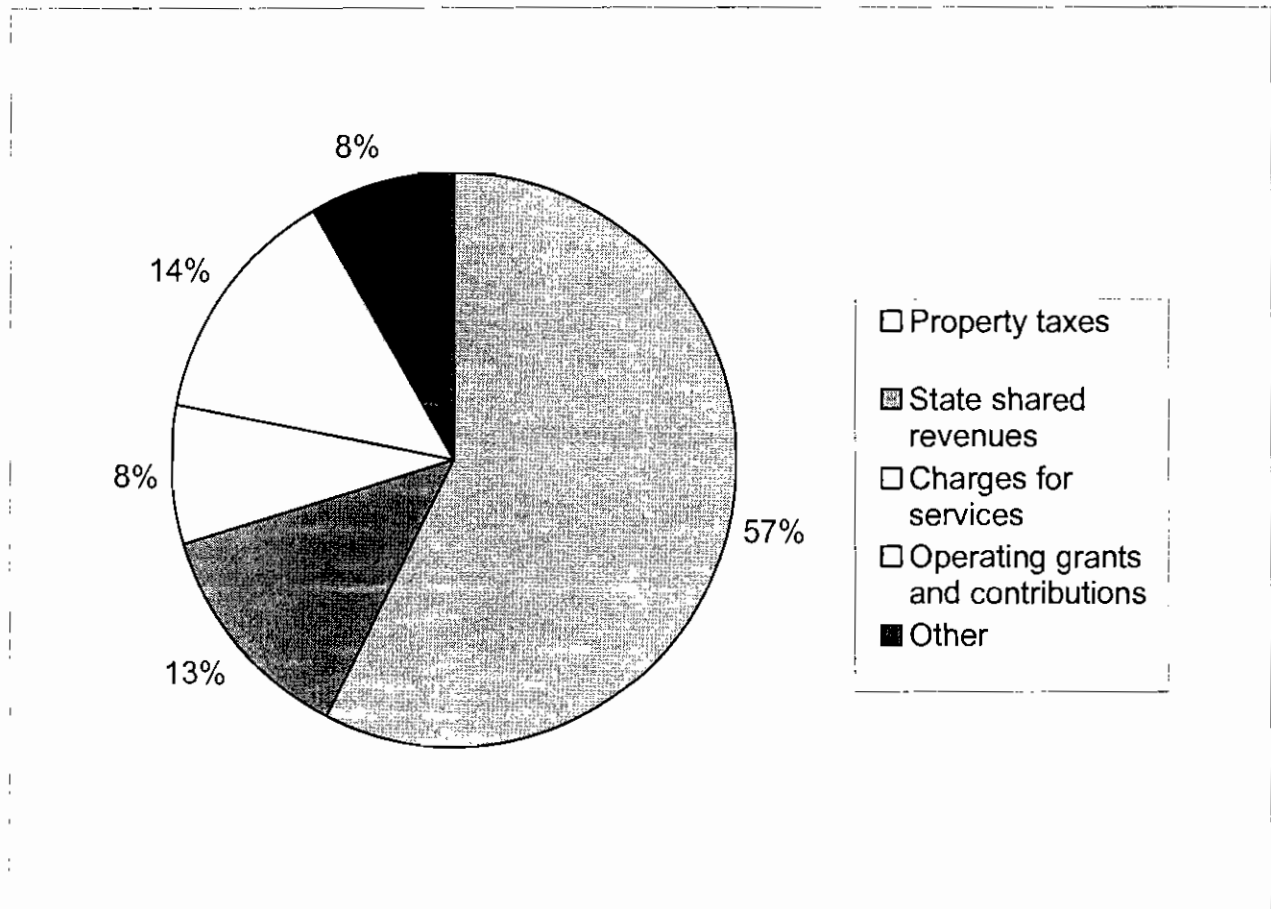
- Increases in property tax revenue.
- The timing differences between construction of capital assets and depreciation of the assets over their estimated useful lives.
- Contributions from surrounding townships, community foundations and Rockford Ambulance to cover portions of the fire barn addition.

Expenses and Program Revenues – Governmental Activities



**City of Lowell
Management's Discussion and Analysis
June 30, 2008**

Revenues by Source – Governmental Activities



Business-type activities. Business-type activities decreased the City's net assets by \$2,620,305. Key elements of this increase are as follows:

- The proceeds from the sale of Lowell Cable Television were transferred to the Grand Rapids Community Foundation.
- Wastewater had an increase in net assets of \$140,563. Charges for services increased by approximately \$69,000 from the previous year due to the change in rates that became effective in the summer of 2007.
- Water had an increase in net assets of \$240,662.
- Lowell Light and Power had a decrease in net assets of \$222,587.

City of Lowell
Management's Discussion and Analysis
June 30, 2008

Financial Analysis of the Government's Funds

As noted earlier, the City of Lowell uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Lowell *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Lowell financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As the end of the current fiscal year, the City of Lowell's governmental funds reported combined ending fund balance of \$424,351, an increase of \$79,800 compared with prior year. This was due to an increase in tax and miscellaneous revenues and a decrease in expenditures.

The general fund is the chief operating fund of the City of Lowell. At the end of the current fiscal year, unreserved fund balance of the general fund was \$91,069, which was the same amount as the total fund balance. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 4.3 percent of total general fund expenditures.

The fund balance of the City of Lowell's general fund increased by \$55,973 during the current fiscal year.

Proprietary funds. The City of Lowell's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the proprietary funds at the end of the year amounted to \$4,101,928. The total decrease in net assets for the year was \$2,620,385. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Lowell's business-type activities.

General Fund Budgetary Highlights

- Significant fluctuations between the original and amended for the year included a decrease in state share revenues and an increase in property tax revenues, as well as an increase in transfers out to other funds.

**City of Lowell
Management's Discussion and Analysis
June 30, 2008**

Capital Asset and Debt Administration

Capital assets. The City of Lowell's investment in capital assets for its governmental and business type activities as of June 30, 2008, amounts to \$20,532,360 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, road, highways, and bridges. The total decrease in the City of Lowell's investment in net capital assets for the current fiscal year was \$780,749. The total investment in capital assets was \$414,245.

Major capital asset events during the current fiscal year included the following:

- Reconstruction of portions of Gee Drive
- Completion of a new ambulance building
- Purchase of police cruisers
- Purchase of new water department and cemetery department trucks

**City of Lowell Capital Assets
(net of depreciation)**

| | Governmental Activities | Business-type Activities | Total |
|--------------------------------------|------------------------------------|-------------------------------------|----------------------|
| Land | \$ 568,460 | \$ 349,838 | \$ 918,298 |
| Construction in progress | 0 | 27,346 | 27,346 |
| Building, equipment and improvements | 6,231,704 | 13,355,012 | 19,586,716 |
| Total net assets | <u>\$ 6,800,164</u> | <u>\$ 13,732,196</u> | <u>\$ 20,532,360</u> |

Additional information on the City of Lowell capital assets can be found in note 4 on pages 38 and 39 of this report.

Long-term debt.

City of Lowell Outstanding Obligations

| | Governmental Activities | Business-type Activities | Total |
|------------------------------|------------------------------------|-------------------------------------|----------------------|
| Bonded debt net of discounts | \$ 5,310,000 | \$ 6,752,884 | \$ 12,062,884 |
| Other obligations | 64,091 | 66,036 | 130,127 |
| Total net assets | <u>\$ 5,374,091</u> | <u>\$ 6,818,920</u> | <u>\$ 12,193,011</u> |

During the year the City paid approximately \$616,000 of principal off on debt outstanding at July 01, 2007.

**City of Lowell
Management's Discussion and Analysis
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The City of Lowell has a BBB rating from Standard & Poor's.

State statutes limit the amount of general obligation debt a government entity may issue to 10% of the entity's total State Equalized Value. The current debt outstanding for the City of Lowell is within the statutory limit.

Economic Factors and Next Year's Budgets and Rates

Revenues

Property Taxes – The General Fund's budgeted property tax, its largest revenue source, is projected to increase 3.4%. The taxable value of existing property, not affected by transfer of ownership or construction of additions, was limited by State Law to the Consumer Price Index.

State Shared Revenue – The General Fund's budgeted state shared revenues are expected to remain steady at \$397,143.

Expenditures

Although the General Fund expenditures are budgeted to increase 1.24% to \$2,476,832, additional factors were considered in the preparation of the budget, as follows:

Compensation for City employees were estimated at a 2.0% increase in wages for each employee.

No staffing changes have been included in the budget. There were no reductions in staff or additions.

**City of Lowell
Management's Discussion and Analysis
June 30, 2008**

Requests for Information

This financial report is designed to provide a general overview of the City of Lowell finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Sue Olin, Treasurer, City of Lowell, 301 E. Main Street, Lowell, Michigan 49331.

CITY OF LOWELL
STATEMENT OF NET ASSETS

June 30, 2008

| | Primary Government | | | Component Unit |
|---|---------------------|----------------------|---------------------|-------------------|
| | Governmental | Business-type | | Downtown |
| | Activities | Activities | Total | Development |
| | | | | Authority |
| Assets | | | | |
| Current assets: | | | | |
| Cash and pooled investments | \$ 370,570 | \$ 1,879,428 | \$ 2,249,998 | \$ 309,151 |
| Investments | 70,268 | 1,345,567 | 1,415,835 | 0 |
| Accounts receivable | 67,213 | 960,503 | 1,027,716 | 0 |
| Due from other governments | 172,713 | 0 | 172,713 | 0 |
| Contract receivable | 0 | 0 | 0 | 0 |
| Other receivable | 0 | 11,769 | 11,769 | 0 |
| Special assessment receivable | 3,388 | 82,407 | 85,795 | 0 |
| Inventory | 7,413 | 88,608 | 96,021 | 0 |
| Internal balances | 39,970 | (39,970) | 0 | 0 |
| Prepaid items and other assets | 0 | 36,918 | 36,918 | 0 |
| Restricted assets | | | | |
| Cash and pooled investments | 0 | 1,343,095 | 1,343,095 | 0 |
| Non-current assets: | | | | |
| Advance receivable | 0 | 49,313 | 49,313 | 0 |
| Restricted assets | | | | |
| Cash and pooled investments | 0 | 365,767 | 365,767 | 0 |
| Capital assets | | | | |
| Land | 568,460 | 349,838 | 918,298 | 67,876 |
| Buildings, equipment and fixture, net | 6,231,704 | 13,355,013 | 19,586,717 | 824,026 |
| Construction in progress | 0 | 27,346 | 27,346 | 0 |
| Total assets | 7,531,699 | 19,855,602 | 27,387,301 | 1,201,053 |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable | 117,428 | 789,703 | 907,131 | 4,878 |
| Accrued liabilities | 94,994 | 148,605 | 243,599 | 3,050 |
| Accrued compensated absences | 97,197 | 52,285 | 149,482 | 0 |
| Due to other governmental units | 40,168 | 0 | 40,168 | 0 |
| Customer deposits | 0 | 194,678 | 194,678 | 0 |
| Deferred revenue | 20,966 | 4,914 | 25,880 | 0 |
| Noncurrent liabilities: | | | | |
| Due within one year | 165,398 | 470,736 | 636,134 | 155,000 |
| Due in more than one year | 5,208,693 | 6,348,184 | 11,556,877 | 915,000 |
| Total liabilities | 5,744,844 | 8,009,105 | 13,753,949 | 1,077,928 |
| Net assets | | | | |
| Invested in capital assets, net of related debt | 1,426,073 | 7,226,104 | 8,652,177 | (178,098) |
| Restricted for: | | | | |
| Major Streets | 14,315 | 0 | 14,315 | 0 |
| Local Streets | 1,136 | 0 | 1,136 | 0 |
| Historic District Commission | 22,709 | 0 | 22,709 | 0 |
| Debt Service | 5,018 | 518,465 | 523,483 | 0 |
| Emergency purchases | 0 | 0 | 0 | 0 |
| Cemetery trust corpus | 290,104 | 0 | 290,104 | 0 |
| Programs | 0 | 0 | 0 | 0 |
| Unrestricted | 27,500 | 4,101,928 | 4,129,428 | 301,223 |
| Total net assets (deficit) | \$ 1,786,855 | \$ 11,846,497 | \$13,633,352 | \$ 123,125 |

CITY OF LOWELL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

| Functions/Programs | Expenses | Program Revenues | | | Net (Expenses) Revenues and Changes in Net Assets | | | Component Unit |
|--|----------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|-----------------------|-------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Net (Expense) Revenue | |
| Primary Government | | | | | | | | |
| Governmental Activities: | | | | | | | | |
| General government | 622,770 | 34,576 | 5,806 | 0 | \$ (582,388) | \$ 0 | \$ (582,388) | \$ 0 |
| Public safety | 1,081,851 | 96,466 | 12,782 | 96,640 | (875,963) | 0 | (875,963) | 0 |
| Highways and streets | 245,540 | 13,063 | 271,923 | 0 | 39,446 | 0 | 39,446 | 0 |
| Public services | 643,573 | 86,492 | 0 | 0 | (557,081) | 0 | (557,081) | 0 |
| Interest on long-term debt | 259,898 | 0 | 128,147 | 0 | (131,751) | 0 | (131,751) | 0 |
| Total governmental activities | <u>2,853,632</u> | <u>230,597</u> | <u>418,658</u> | <u>96,640</u> | <u>(2,107,737)</u> | <u>0</u> | <u>(2,107,737)</u> | <u>0</u> |
| Business-type activities: | | | | | | | | |
| Airport | 39,223 | 38,101 | 0 | 0 | 0 | (1,122) | (1,122) | 0 |
| Light & Power | 6,116,983 | 5,774,796 | 0 | 0 | 0 | (342,187) | (342,187) | 0 |
| Sale of Cable T.V. | 46,049 | 0 | 0 | 0 | 0 | (46,049) | (46,049) | 0 |
| Wastewater | 850,376 | 965,748 | 0 | 0 | 0 | 115,372 | 115,372 | 0 |
| Water | 734,909 | 928,794 | 0 | 0 | 0 | 193,885 | 193,885 | 0 |
| Total business-type activities | <u>7,787,540</u> | <u>7,707,439</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>(80,101)</u> | <u>(80,101)</u> | <u>0</u> |
| Total primary government | <u>\$ 10,641,172</u> | <u>\$ 7,938,036</u> | <u>\$ 418,658</u> | <u>\$ 96,640</u> | <u>(2,107,737)</u> | <u>(80,101)</u> | <u>(2,187,838)</u> | <u>0</u> |
| Component unit activities | | | | | | | | |
| Downtown Development Authority | \$ 354,835 | \$ 0 | \$ 0 | \$ 0 | | | | (354,835) |
| Total component units | <u>\$ 354,835</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | | | | <u>(354,835)</u> |
| General revenues: | | | | | | | | |
| Property taxes | | | | | 1,744,213 | 0 | 1,744,213 | 535,985 |
| State shared revenues | | | | | 393,143 | 0 | 393,143 | 0 |
| Interest earnings | | | | | 34,649 | 216,322 | 250,971 | 14,214 |
| Contributions/other/asset disposals | | | | | 118,140 | 18,992 | 137,132 | 0 |
| Total general revenues and transfers | | | | | <u>2,290,145</u> | <u>235,314</u> | <u>2,525,459</u> | <u>550,199</u> |
| Extraordinary item-Transfer of Cable T.V. sales proceeds to Grand Rapids Foundation | | | | | 0 | (2,775,598) | (2,775,598) | 0 |
| Changes in net assets | | | | | 182,408 | (2,620,365) | (2,437,977) | 195,364 |
| Net assets (deficit), beginning of year | | | | | <u>1,504,447</u> | <u>14,466,882</u> | <u>16,071,329</u> | <u>(72,239)</u> |
| Net assets (deficit), end of year | | | | | <u>\$ 1,786,855</u> | <u>\$ 11,846,497</u> | <u>\$ 13,633,352</u> | <u>\$ 123,125</u> |

See accompanying notes to financial statements.

Fund Financial Statements

CITY OF LOWELL
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2008

| | General | Other Governmental Funds | Total Governmental Funds |
|---|-------------------|--------------------------------|--------------------------------|
| Assets | | | |
| Cash and pooled investments | \$ 62,476 | \$ 268,746 | \$ 331,222 |
| Investments | 0 | 70,268 | 70,268 |
| Receivables | | | |
| Accounts | 60,086 | 0 | 60,086 |
| Special assessments | 3,388 | 0 | 3,388 |
| Due from other governmental units | 130,017 | 42,696 | 172,713 |
| Due from other funds | 70,801 | 5,864 | 76,665 |
| Prepaid expenses | 0 | 0 | 0 |
| Total assets | \$ 326,768 | \$ 387,574 | \$ 714,342 |
| Liabilities | | | |
| Accounts payable | \$ 100,006 | \$ 15,471 | \$ 115,477 |
| Accrued liabilities | 61,346 | 1,806 | 63,152 |
| Due to other funds | 0 | 36,695 | 36,695 |
| Due to other governments | 40,168 | 0 | 40,168 |
| Deferred revenue | 20,966 | 0 | 20,966 |
| Accrued compensated absences | 13,213 | 320 | 13,533 |
| Total liabilities | 235,699 | 54,292 | 289,991 |
| Fund balances | | | |
| Reserved for: | | | |
| Permanent trust | 0 | 295,122 | 295,122 |
| Programs | 0 | 0 | 0 |
| Debt service | 0 | 0 | 0 |
| Unreserved | | | |
| Undesignated | 91,069 | 0 | 91,069 |
| Undesignated reported in special revenue funds | 0 | 38,160 | 38,160 |
| Total fund balances | 91,069 | 333,282 | 424,351 |
| Total liabilities and fund balances | \$ 326,768 | \$ 387,574 | \$ 714,342 |

CITY OF LOWELL
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2008

| | |
|--|-------------------|
| Fund balances-total governmental funds | \$ 424,351 |
|--|-------------------|

Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

| | |
|--------------------------|-----------|
| Add-capital assets (net) | 6,800,164 |
|--------------------------|-----------|

An internal service fund is used by management to charge the costs of certain equipment usage and data processing to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

| | |
|--|--------|
| Add-net assets of governmental activities accounted for in the internal service fund | 46,948 |
|--|--------|

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

| | |
|--|-------------|
| Deduct-compensated absences payable | (80,904) |
| Deduct-bonds payable and lease purchases payable | (5,374,091) |
| Deduct-accrued interest on bonds payable | (29,613) |
| | |

| | |
|---------------------------------------|-----------------------------------|
| Net assets of governmental activities | <u><u>\$ 1,786,855</u></u> |
|---------------------------------------|-----------------------------------|

CITY OF LOWELL
GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2008

| | General | Other Governmental Funds | Total Governmental Funds |
|---|------------------|---|---|
| Revenues | | | |
| Taxes | \$ 1,744,213 | \$ 0 | \$ 1,744,213 |
| Intergovernmental revenues: | | | |
| Federal | 0 | 0 | 0 |
| State | 398,320 | 271,923 | 670,243 |
| Charges for services | 136,570 | 0 | 136,570 |
| Interest income | 16,310 | 18,339 | 34,649 |
| Charges for perpetual care | 0 | 9,350 | 9,350 |
| Miscellaneous | 418,500 | 1,339 | 419,839 |
| Total revenues | 2,713,913 | 300,951 | 3,014,864 |
| Expenditures | | | |
| Current: | | | |
| General government | 496,779 | 0 | 496,779 |
| Public safety | 992,583 | 0 | 992,583 |
| Highways and streets | 0 | 225,362 | 225,362 |
| Public services | 585,731 | 7,607 | 593,338 |
| Other functions | 69,254 | 527 | 69,781 |
| Debt service: | | | |
| Principal retirement | 29,333 | 140,000 | 169,333 |
| Interest and fiscal charges | 571 | 259,566 | 260,137 |
| Capital outlay | 136,070 | 31,281 | 167,351 |
| Total expenditures | 2,310,321 | 664,343 | 2,974,664 |
| Revenues over (under) expenditures | 403,592 | (363,392) | 40,200 |
| Other financing sources (uses) | | | |
| Transfers in | 10,831 | 443,050 | 453,881 |
| Transfers out | (398,050) | (55,831) | (453,881) |
| Proceeds from capital lease | 39,600 | 0 | 39,600 |
| Total other financing sources (uses) | (347,619) | 387,219 | 39,600 |
| Net change in fund balance | 55,973 | 23,827 | 79,800 |
| Fund balance, beginning of year | 35,096 | 309,455 | 344,551 |
| Fund balance, end of year | \$ 91,069 | \$ 333,282 | \$ 424,351 |

CITY OF LOWELL

Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities

FOR THE YEAR ENDED JUNE 30, 2008

| | |
|--|-------------------|
| Net change in fund balances-total governmental funds | \$ 79,800 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. | |
| Add- capital outlay | 167,351 |
| Deduct-depreciation expense | (198,769) |
| Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. | |
| Add-principal payments on long-term liabilities | 169,333 |
| Deduct-proceeds from capital lease | (39,600) |
| An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities. | |
| Add-income from governmental activities in internal service fund | 21,176 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds. | |
| Add-changes in compensated absences | (17,122) |
| Add-accrued interest | 239 |
| Change in net assets of governmental activities | <u>\$ 182,408</u> |

CITY OF LOWELL
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
AMENDED BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

| | ORIGINAL BUDGET | AMENDED BUDGET | ACTUAL | VARIANCE POSITIVE (NEGATIVE) |
|---|--------------------|-------------------|--------------|------------------------------------|
| REVENUES | | | | |
| Taxes | \$ 1,756,489 | \$ 1,756,489 | \$ 1,744,213 | \$ (12,276) |
| Intergovernmental | 402,255 | 402,255 | 398,320 | (3,935) |
| Charges for services | 120,717 | 119,717 | 136,570 | 16,853 |
| Investment income | 15,200 | 15,200 | 16,310 | 1,110 |
| Miscellaneous | 212,028 | 431,224 | 418,500 | (12,724) |
| TOTAL REVENUES | 2,506,689 | 2,724,885 | 2,713,913 | (10,972) |
| EXPENDITURES | | | | |
| Current | | | | |
| General government | 503,483 | 503,725 | 496,779 | 6,946 |
| Public safety | 1,021,530 | 1,150,354 | 1,128,653 | 21,701 |
| Public service | 529,958 | 526,748 | 585,731 | (58,983) |
| Debt service | 29,904 | 29,904 | 29,904 | 0 |
| Other functions | 63,650 | 69,650 | 69,254 | 396 |
| TOTAL EXPENDITURES | 2,148,525 | 2,280,381 | 2,310,321 | (29,940) |
| REVENUES OVER (UNDER) EXPENDITURES | 358,164 | 444,504 | 403,592 | (40,912) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 5,000 | 8,000 | 10,831 | 2,831 |
| Transfers out | (336,550) | (398,050) | (398,050) | 0 |
| Capital lease proceeds | 0 | 39,600 | 39,600 | 0 |
| TOTAL OTHER FINANCING SOURCES (USES) | (331,550) | (350,450) | (347,619) | 2,831 |
| REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES | 26,614 | 94,054 | 55,973 | (38,081) |
| FUND BALANCES, BEGINNING OF YEAR | | | 35,096 | |
| FUND BALANCES, END OF YEAR | | | \$ 91,069 | |

CITY OF LOWELL
PROPRIETARY FUNDS
COMBINING STATEMENTS OF NET ASSETS

June 30, 2008

| | Enterprise Funds | | | | | | Governmental Activities INTERNAL SERVICE FUNDS |
|---|---------------------|---------------------|-------------------|-------------------|----------------------|----------------------|--|
| ASSETS | WASTEWATER | WATER | AIRPORT | CABLE TV SALE | LIGHT & POWER | TOTAL | |
| Current assets | | | | | | | |
| Cash and pooled investments | \$ 601,918 | \$ 691,971 | \$ 64,292 | \$ 366,260 | \$ 154,987 | \$ 1,879,428 | \$ 39,348 |
| Investments | 0 | 0 | 0 | 0 | 1,345,567 | 1,345,567 | 0 |
| Accounts receivable | 111,938 | 116,356 | 2,121 | 0 | 730,088 | 960,503 | 7,127 |
| Special assessments | 74,571 | 7,836 | 0 | 0 | 0 | 82,407 | 0 |
| Due from other funds | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Contract receivable | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other receivables | 11,769 | 0 | 0 | 0 | 0 | 11,769 | 0 |
| Inventory | 0 | 79,843 | 0 | 0 | 8,765 | 88,608 | 7,413 |
| Prepaid expenses | 0 | 115 | 0 | 0 | 36,803 | 36,918 | 0 |
| Total current assets | 800,196 | 896,121 | 66,413 | 366,260 | 2,276,210 | 4,405,200 | 53,888 |
| Restricted assets | | | | | | | |
| Cash and pooled investments | 218,404 | 243,383 | 0 | 0 | 861,308 | 1,343,095 | 0 |
| Total restricted assets | 218,404 | 243,383 | 0 | 0 | 861,308 | 1,343,095 | 0 |
| Non-current assets | | | | | | | |
| Restricted cash and pooled investments | 0 | 0 | 0 | 0 | 365,767 | 365,767 | 0 |
| Advance receivable | 0 | 0 | 0 | 0 | 49,313 | 49,313 | 0 |
| Total | 0 | 0 | 0 | 0 | 415,080 | 415,080 | 0 |
| Capital assets | | | | | | | |
| Land | 4,500 | 109,908 | 36,273 | 0 | 199,157 | 349,838 | 0 |
| Work in progress | 0 | 0 | 0 | 0 | 27,345 | 27,346 | 0 |
| Land improvements | 0 | 174,708 | 172,680 | 0 | 0 | 347,386 | 0 |
| Buildings and plant | 5,180,179 | 994,791 | 212,030 | 0 | 16,267,101 | 22,654,101 | 0 |
| Machinery and equipment | 652,336 | 728,457 | 0 | 0 | 0 | 1,380,793 | 846,366 |
| Improvements other than buildings | 1,192,068 | 4,050,802 | 0 | 0 | 0 | 5,242,870 | 0 |
| Less | | | | | | | |
| Accumulated depreciation | (5,261,215) | (2,571,477) | (160,089) | 0 | (8,277,356) | (16,270,137) | (608,695) |
| Net capital assets | 1,767,668 | 3,487,187 | 260,894 | 0 | 8,216,248 | 13,732,197 | 37,691 |
| Total assets | \$ 2,786,468 | \$ 4,626,691 | \$ 327,307 | \$ 366,260 | \$ 11,788,846 | \$ 19,895,572 | \$ 91,579 |
| LIABILITIES | | | | | | | |
| Current liabilities | | | | | | | |
| Accounts payable | \$ 43,575 | \$ 7,708 | \$ 0 | \$ 351,720 | \$ 366,700 | \$ 769,703 | \$ 1,951 |
| Accrued liabilities | 19,850 | 35,958 | 115 | 0 | 92,862 | 148,605 | 2,229 |
| Due to other funds | 0 | 0 | 15,822 | 0 | 24,348 | 39,970 | 0 |
| Customer deposits | 0 | 7,221 | 2,784 | 0 | 184,673 | 194,678 | 0 |
| Current maturity on long-term debt | 155,000 | 157,827 | 7,909 | 0 | 150,000 | 470,736 | 7,199 |
| Total current liabilities | 218,425 | 208,714 | 26,430 | 351,720 | 838,403 | 1,643,692 | 11,378 |
| Non-current liabilities | | | | | | | |
| Bonds and notes payable net of current | 481,662 | 1,488,600 | 17,144 | 0 | 4,360,778 | 6,348,184 | 30,493 |
| Deferred revenue | 0 | 0 | 4,914 | 0 | 0 | 4,914 | 0 |
| Accrued compensated absences | 6,195 | 11,516 | 0 | 0 | 32,572 | 52,285 | 2,760 |
| Total non-current liabilities | 489,857 | 1,500,116 | 22,058 | 0 | 4,393,350 | 6,405,383 | 33,253 |
| Total liabilities | 708,282 | 1,708,832 | 48,488 | 351,720 | 5,231,753 | 8,049,075 | 44,631 |
| NET ASSETS | | | | | | | |
| Invested in capital assets, net of related debt | 1,286,206 | 1,998,587 | 235,841 | 0 | 3,705,470 | 7,226,104 | 0 |
| Restricted for debt service | 48,709 | 59,893 | 0 | 0 | 409,863 | 518,465 | 0 |
| Unrestricted | 743,271 | 859,379 | 42,978 | 14,540 | 2,441,760 | 4,101,928 | 46,948 |
| Total net assets | \$ 2,078,186 | \$ 2,917,859 | \$ 278,819 | \$ 14,540 | \$ 6,557,093 | \$ 11,846,497 | \$ 48,946 |

CITY OF LOWELL

PROPRIETARY FUNDS COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2008

| | Enterprise Funds | | | | | Governmental Activities INTERNAL SERVICE FUNDS |
|---|---------------------|---------------------|-------------------|--------------------|---------------------|--|
| | WASTEWATER | WATER | AIRPORT | CABLE TV SALE | LIGHT & POWER | |
| Operating revenues | | | | | | |
| Charges for services | \$ 963,610 | \$ 927,474 | \$ 38,101 | \$ 0 | \$ 5,774,796 | \$ 7,703,981 |
| Tap fees | 2,138 | 1,320 | 0 | 0 | 0 | 3,458 |
| Total operating revenues | 965,748 | 928,794 | 38,101 | 0 | 5,774,796 | 184,195 |
| Operating expenses | | | | | | |
| Treatment | 455,752 | 271,784 | 0 | 0 | 0 | 727,536 |
| Transmission and distribution | 57,398 | 174,619 | 0 | 0 | 536,267 | 768,284 |
| Customer accounts | 31,936 | 36,619 | 0 | 0 | 195,054 | 263,609 |
| Administrative and general | 31,958 | 37,879 | 24,645 | 0 | 926,726 | 1,021,208 |
| Purchased programs and power expenses | 0 | 0 | 0 | 0 | 3,362,834 | 0 |
| Depreciation and amortization | 222,778 | 118,628 | 12,822 | 0 | 640,557 | 994,783 |
| Total operating expenses | 799,822 | 639,527 | 37,467 | 0 | 5,661,438 | 164,040 |
| Operating income (loss) | 165,926 | 289,267 | 634 | 0 | 113,358 | 20,155 |
| Non-operating revenues (expenses) | | | | | | |
| Interest income | 23,893 | 30,345 | 1,981 | 41,765 | 118,538 | 216,322 |
| Interest expense | (50,554) | (95,382) | (1,756) | 0 | (217,738) | (365,428) |
| Gain (loss) on asset disposal | 0 | 0 | 0 | 0 | 1,062 | 1,062 |
| Miscellaneous revenue | 1,498 | 16,432 | 0 | 0 | 0 | 17,930 |
| Total non-operating revenues (expenses) | (25,363) | (48,605) | 225 | 41,765 | (98,136) | 1,021 |
| Income (loss) before contributions, transfers and extraordinary gain | 140,563 | 240,662 | 859 | 41,765 | 15,222 | 21,176 |
| Capital contributions | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers in (out) | 0 | 0 | 0 | (46,049) | 0 | (46,049) |
| Transfer-Payment in lieu of taxes | 0 | 0 | 0 | 0 | (237,809) | (237,809) |
| Extraordinary item-transfer of sales proceeds from sale of Cable T.V. to Grand Rapids Foundation | 0 | 0 | 0 | (2,775,598) | 0 | 0 |
| Change in net assets | 140,563 | 240,662 | 859 | (2,779,882) | (222,587) | 21,176 |
| Net assets, beginning of year | 1,937,623 | 2,677,197 | 277,960 | 2,794,422 | 6,779,680 | 14,466,882 |
| Net assets, end of year | \$ 2,078,186 | \$ 2,917,859 | \$ 278,819 | \$ 14,540 | \$ 6,557,093 | \$ 11,848,497 |
| | | | | | | \$ 46,948 |

CITY OF LOWELL
PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008

| | ENTERPRISE FUNDS | | | | | | GOVERNMENTAL ACTIVITIES |
|--|------------------|------------|-----------|--------------------|------------------|--------------|------------------------------|
| | WASTEWATER | WATER | AIRPORT | CABLE T V. SALE | LIGHT & POWER | TOTAL | INTERNAL SERVICE FUNDS |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | | |
| Receipts from interfund services provided | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 182,929 |
| Receipts from customers and users | 989,607 | 931,822 | 36,572 | 0 | 5,813,222 | 7,771,223 | 0 |
| Payments to employees | (153,858) | (310,200) | 0 | 0 | (1,479,742) | (1,943,800) | (81,799) |
| Payments to suppliers | (473,469) | (226,535) | (27,328) | 0 | (3,564,359) | (4,291,691) | (64,003) |
| Net cash provided by (used in) operating activities | 362,280 | 395,087 | 9,244 | 0 | 769,121 | 1,535,732 | 17,127 |
| CASH FLOWS FROM NON-CAPITAL FINANCING | | | | | | | |
| Due to other funds | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Due from other funds/advances receivable | 0 | 0 | 0 | 0 | 469,457 | 469,457 | 0 |
| Transfers in (out) | 0 | 0 | 0 | 0 | (237,809) | (237,809) | 0 |
| Other activities | 1,498 | 16,432 | 0 | 118,509 | (2,123) | 134,316 | 0 |
| Distribution to Grand Rapids Community Foundation | 0 | 0 | 0 | (2,775,598) | 0 | (2,775,598) | 0 |
| Net cash provided by (used in) non-capital financing | 1,498 | 16,432 | 0 | (2,657,089) | 229,525 | (2,409,634) | 0 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | | | |
| Acquisitions of capital assets | 0 | (46,181) | 0 | 0 | (163,042) | (209,203) | (37,691) |
| Principal paid on long-term debt/advances | (145,000) | (149,000) | (7,497) | 0 | (145,000) | (446,497) | 0 |
| Interest paid on long-term debt/advances | (41,108) | (84,345) | (1,790) | 0 | (215,433) | (342,676) | 0 |
| Proceeds from capital lease issuance | 0 | 40,983 | 0 | 0 | 0 | 40,983 | 37,891 |
| Distribution to Grand Rapids Community Foundation | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES | (186,108) | (238,523) | (9,287) | 0 | (523,475) | (957,393) | 0 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | | |
| Interest income | 23,693 | 30,345 | 1,981 | 41,765 | 116,157 | 213,941 | 1,021 |
| Sale of investments | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Purchase of investments | 0 | 0 | 0 | 0 | (494,313) | (494,313) | 0 |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | 23,693 | 30,345 | 1,981 | 41,765 | (378,156) | (280,372) | 1,021 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 201,363 | 203,341 | 1,938 | (2,615,324) | 97,015 | (2,111,667) | 18,148 |
| CASH AND POOLED INVESTMENTS, BEGINNING OF YEAR | 618,959 | 732,013 | 62,354 | 2,981,584 | 890,568 | 5,285,478 | 21,200 |
| CASH AND POOLED INVESTMENTS, END OF YEAR | \$ 820,322 | \$ 935,354 | \$ 64,292 | \$ 366,260 | \$ 987,583 | \$ 3,173,811 | \$ 39,348 |
| Cash and pooled investments | \$ 601,918 | 691,971 | \$ 64,292 | \$ 366,260 | \$ 154,987 | \$ 1,879,428 | \$ 39,348 |
| Restricted cash and pooled investments | 218,404 | 243,383 | 0 | 0 | 832,596 | 1,294,383 | 0 |
| Total | \$ 820,322 | \$ 935,354 | \$ 64,292 | \$ 366,260 | \$ 987,583 | \$ 3,173,811 | \$ 39,348 |
| Reconciliation of operating income (loss) to net cash provided by operating activities | | | | | | | |
| Operating income (loss) | \$ 165,926 | \$ 289,267 | \$ 634 | \$ 0 | \$ 113,356 | \$ 569,185 | \$ 20,155 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities | | | | | | | |
| Depreciation and amortization | 222,776 | 118,626 | 12,822 | 0 | 640,557 | 994,783 | 2,178 |
| Changes in operating assets and liabilities which provided (used) cash: | | | | | | | |
| Accounts receivable/assessments | 23,860 | 1,204 | (1,659) | 0 | 38,426 | 61,831 | (1,266) |
| Due from other governmental units | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Inventory | 0 | (7,603) | 0 | 0 | (5,315) | (12,918) | 450 |
| Prepaid expenses | 0 | (25) | 0 | 0 | (4,738) | (4,763) | 0 |
| Accounts payable | (48,051) | (5,993) | (33) | 0 | 2,920 | (51,157) | (3,992) |
| Accrued liabilities | (2,489) | (1,979) | 0 | 0 | (18,149) | (22,617) | (236) |
| Deferred revenue | 0 | 0 | (2,650) | 0 | 0 | (2,650) | 0 |
| Compensated absences | 256 | (234) | 0 | 0 | (9,100) | (9,078) | (162) |
| Due to other governmental entities | 0 | 0 | 0 | 0 | (2,174) | (2,174) | 0 |
| Customer deposits | 0 | 1,823 | 130 | 0 | 13,336 | 15,289 | 0 |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | \$ 362,280 | \$ 395,086 | \$ 9,244 | \$ 0 | \$ 769,121 | \$ 1,535,731 | \$ 17,127 |

CITY OF LOWELL
FIDUCIARY FUNDS
STATEMENTS OF NET ASSETS
June 30, 2008

| | <u>Private Purpose Trust Funds</u> | <u>Agency Funds</u> |
|-------------------------------|--|-------------------------|
| ASSETS | | |
| Cash and pooled investments | \$ 225,099 | \$ 48 |
| Investments | 1,047,909 | 0 |
| Accounts Receivable | <u>82,611</u> | <u>0</u> |
| Total assets | <u>1,355,619</u> | <u>48</u> |
| LIABILITIES | | |
| Accounts payable | <u>15,000</u> | <u>0</u> |
| Total Liabilities | <u>15,000</u> | <u>0</u> |
| NET ASSETS | | |
| Restricted | 20,833 | 0 |
| Unrestricted board designated | 1,171,264 | 0 |
| Unrestricted | <u>148,522</u> | <u>48</u> |
| Total net assets | <u>\$ 1,340,619</u> | <u>\$ 48</u> |

CITY OF LOWELL
PRIVATE PURPOSE TRUSTS
STATEMENT OF CHANGES IN FIDUCIARY
NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008

| | <u>Totals</u> |
|--------------------------------------|----------------------------|
| Operating revenues | |
| Interest and miscellaneous | <u>\$ 180,224</u> |
| Expenses | |
| Other functions | <u>79,416</u> |
| Changes in net assets | <u>100,808</u> |
| Net assets, beginning of year | <u>1,239,811</u> |
| Net assets, end of year | <u>\$ 1,340,619</u> |

Notes to Financial Statements

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lowell (the "City") was incorporated in 1960, under the provision of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: Public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The accounting policies of the City conform to generally accepted accounting principles, as described below, as applicable to governments. The following is a summary of the more significant policies:

The Reporting Entity

As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations, so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the City. A separate section of the General Purpose Financial Statements provides detailed financial information on the discretely presented component unit.

Restricted Assets

Certain bond and deposit agreements require assets to be set aside for principal, interest repayment and other purposes. These assets are classified as restricted assets on the balance sheet because their use is limited by applicable agreement requirements.

Blended Component Unit

Building Authority – The Building Authority is an entity legally separated from the City. For financial reporting purposes, the Building Authority is reported as if it were part of the City's operations because its purpose is to acquire, construct and equip public buildings on behalf of the City.

The Building Authority is the only blended component unit.

Discretely Presented Component Unit

Downtown Development Authority – The Downtown Development Authority (DDA), was established pursuant to the provisions of Public Act 197 of 1975, and is governed by a nine (9) person Board of Directors appointed by the City Council. All record and minutes are open to the public and can be inspected at the City of Lowell, 301 E. Main Street, Lowell, MI 49331. Separate financial statements are not prepared for the Downtown Development Authority.

The Downtown Development Authority is the only discretely presented component unit.

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements except for agency funds which have no measurement focus. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After March 1 of the following year, the County pays the City for any outstanding real property (excluding personal property) taxes of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be recorded when all eligibility requirements have been met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service, landfill remediation and compensated absences expenditures are recorded only when payment is due.

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The *Wastewater Fund* accounts for operation, maintenance and capital improvement of the wastewater system, and retirement of related debt.

The *Water Fund* accounts for operation, maintenance and capital improvement of the wastewater system, and retirement of related debt.

The *Airport Fund* accounts for operation, maintenance and capital improvement of the airport and retirement of related debt.

The *Cable T.V. Sale Fund* accounts for the proceeds and expenses related to the sale of the cable television system.

The *Light and Power Fund* accounts for operation, maintenance and capital improvements of the electrical utility system, and retirement of related debt.

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for revenue from specific revenue sources (other than capital projects) and related expenditures which are restricted for specific purposes by administrative action or law.

The *Debt Service Funds* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The *Internal Service Funds* account for services provided internally to city departments including data processing and equipment rental and repair on a cost reimbursement basis.

The *Permanent Trust Fund* is used to account for the corpus of the cemetery trust which provides funding for cemetery maintenance activities.

The *Trust and Agency Funds* are used to account for assets held by the City in a trustee or agency capacity on behalf of outside parties, including other governments. These include private purpose trusts and agency funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as a program revenues include: 1) charges to customers or applications for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguished *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for services. The principal operating revenues of the City's internal service funds are charges to City departments for equipment amortization and insurance coverage. Operating expenses for the enterprise funds and internal service funds include wages, supplies, contracted service and depreciation on capital assets. Operating expenses for the internal service funds also include the cost of services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables and Payables

During the course of the operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Non-current portions of long-term interfund loans receivable in the funds are reported as advances.

Any residual balances outstanding between the governmental activities and business-type activity are reported in the government-wide financial statements as "internal balances."

Allowance for Doubtful Accounts

Lowell Light & Power has established a reserve for uncollectible customer receivables. The reserve for Lowell Light & Power at June 30, 2008 was \$5,981.

Accounts receivables are shown net of allowance for doubtful accounts.

Inventories and Prepaid Items

Inventories are valued at cost on the first-in/first-out (FIFO) method. Inventories are recorded as expenditures when consumed rather than when purchased.

Payments made to vendors for services that will benefit periods beyond a fund's fiscal year-end recorded as prepaid items in both government-wide and fund financial statements.

Cash and Pooled Investments

For the purpose of the statement of cash flows, the City considers all assets held in the cash and investment pool to be cash equivalents because the investments are not identifiable to specific funds and the assets can be withdrawn at any time, similar to a demand deposit account.

Budgets and Budgetary Accounting

Budgets are adopted for general and special revenue funds which are adopted on a basis consistent with generally accepted accounting principles (GAAP). The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submitted to the city Council, a proposed operating budget for the fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings were conducted by the City to obtain taxpayer comments.

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting (Continued)

3. By June of each year, the budget is legally enacted through passage of the appropriations act.
4. The City Manager is authorized to make budget transfers to or from any one appropriation category during the fiscal year within dollar limits established by the City Council. The legal level of budgetary control is at the department level.
5. Formal budgetary integration is employed as a management control device during the year. Budget appropriations lapse at year-end.
6. The budgeted amounts presented in these financial statements are final budgets, after amendments on various dates.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. road, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and estimated useful life in excess of two years. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The amount reported for infrastructure includes only assets added beginning in 2004.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on the capital assets (including infrastructure) of the primary government, as well as the component units, is computed using the straight-line method over the following estimate useful lives:

| | <u>Years</u> |
|------------------------------------|--------------|
| Buildings..... | 30-50 |
| Equipment | 5-50 |
| Improvements | 30-50 |
| Public domain infrastructure | 40 |

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Revenue

Funds report *deferred revenues* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* reported in the funds were as follows:

| | |
|--|-------------------------|
| Developer advances/Restricted Funds (General Fund) | \$ 20,966 |
| Advance rent payments (Airport) | <u>4,914</u> |
| | <u><u>\$ 25,880</u></u> |

Net Assets/Fund Balance

Reserved fund balance/net assets represent those portions of fund balance/net assets not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as debt service expenditures.

Investments

Investments are stated at fair value in accordance with GASB Statement No. 31.

Property Taxes

City property taxes are attached as an enforceable lien on property as of July 1st. Taxes are levied July 1 and are due without penalty on or before August 31. These summer tax bills include the City's own property taxes and taxes billed on behalf of other districts within the City limits. Real property taxes not collected are returned to the County for collection, which advances the City 100% for the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Payment in Lieu of Property Taxes/Franchise Fees

The Light and Power and Cable Television enterprise funds make payment in lieu of property taxes and franchise fee payments which are recorded as expenses in the enterprise funds and revenues in the general fund.

Accrued Vacation and Sick Leave

All full-time employees are allowed to earn and accumulate sick and vacation pay subject to per employee maximum accumulated hours. These hours vest and are payable upon termination (for police only), retirement or exceeding the maximum hours accrued. Accrued compensated absences are reported in the proprietary fund types and governmental fund types to the extent that they will be liquidated with expendable available financial resources, and the long-term balance payable from governmental funds is recorded on the statement of net assets.

Post-Retirement Health Care Benefits

The City provides postretirement healthcare benefits to all employees who retire from the City and qualify for benefits under the terms of the City's retirement plan. These post-retirement healthcare benefits are limited to a maximum of five years, or attainment of age 65, whichever comes first. Currently four former employees meet these requirements and received \$30,640 in benefits for the year ended June 30, 2008. These benefits are unfunded and financed on a pay-as-you-go basis. Benefits are treated as expenditures when paid.

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers.

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2008, the City carried commercial insurance to cover risk of losses. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years. The City has not significantly reduced insurance coverage during the past year.

City of Lowell

Notes to Financial Statements
For the Year Ended June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the City for these budgetary funds were adopted at the department level.

During the year ended June 30, 2008, the City incurred expenditures in certain budgetary funds, which were in excess of the amounts appropriated, as follows:

| | <u>Total</u> <u>Appropriations</u> | <u>Amount of</u> <u>Expenditures</u> | <u>Budget</u> <u>Variance</u> |
|------------------------------|---------------------------------------|---|----------------------------------|
| General Fund | | | |
| Legislative Council | \$ 13,820 | \$ 14,969 | \$ (1,149) |
| Library | 50,667 | 60,104 | (9,437) |
| Cemetery | 80,659 | 81,557 | (898) |
| Attorney | 22,000 | 23,365 | (1,365) |
| Treasurer | 129,745 | 129,757 | (12) |
| City Hall | 56,500 | 62,917 | (6,417) |
| Engineering | 4,600 | 5,096 | (496) |
| Parks | 148,613 | 172,312 | (23,699) |
| Refuse Collection | 75,000 | 87,714 | (12,714) |
| Sidewalks | 13,789 | 17,751 | (3,962) |
| Public Works | 147,587 | 158,384 | (10,797) |
| Special Revenue Funds | | | |
| Local Street | | | |
| Traffic | 7,618 | 7,848 | (230) |
| Interest and fiscal charges | 26,115 | 27,716 | (1,601) |
| Winter maintenance | 44,587 | 47,939 | (3,352) |
| Maintenance | 38,114 | 51,942 | (13,828) |
| Major Street | | | |
| Capital Outlay | 31,000 | 31,081 | (81) |
| Winter maintenance | 30,102 | 33,357 | (3,255) |
| Traffic | 14,007 | 14,643 | (636) |

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2008

3. DEPOSITS AND INVESTMENTS

The city utilizes various pooled cash accounts and investments for approximately twenty funds. The City's pooled cash accounts consist of a common checking account, savings accounts, certificates of deposit, and investment trust funds.

The City's pooled cash accounts and investments are utilized by the General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, Enterprise Funds, Internal Service Funds, and the Trust and Agency Funds. Each fund's portion of these pooled accounts is included in the cash and cash equivalents and investments captions on the basic financial statements. The other funds of the City utilize separate savings and interest bearing checking accounts. In addition, certificates of deposit are held separately by several of the City's funds.

Statutory Authority

State statutes authorize the City to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers' acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2008

3. DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits

As of June 30, 2008, the carrying amounts and bank balances for each type of bank account are as follows:

| | Government Wide | Fiduciary |
|--|-------------------------|-------------------------|
| Cash and pooled investments | \$ 2,249,998 | \$ 224,999 |
| Restricted cash and pooled investments | 1,343,095 | 0 |
| Restricted cash and pooled investments-long term | 365,767 | 0 |
| Subtotal | <u>3,958,860</u> | <u>224,999</u> |
| Investments | <u>1,415,835</u> | <u>1,047,909</u> |
| TOTAL | <u>\$ 5,374,695</u> | <u>\$ 1,272,908</u> |

Investments

As of June 30, 2008, the fair market value for the investments is as follows:

| Investment Type | Primary Government | Fiduciary Funds | Total | Standard & Poor's Rating | Portfolio % |
|------------------------------------|-----------------------|---------------------|---------------------|--------------------------------|----------------|
| U.S. Government Securities | \$ 1,149,673 | \$ 0 | \$ 1,149,673 | Unrated | 46.7% |
| Fed.Home Loan Mortgage Pool (FDMC) | 31,055 | 541,811 | 572,866 | AAA | 23.3% |
| GNMA Pool | 39,498 | 371,873 | 411,371 | Unrated | 16.7% |
| Fed. National Mortgage Pool (FNMA) | 0 | 134,214 | 134,214 | AAA | 5.4% |
| Corporate bonds | 114,447 | 0 | 114,447 | Unrated | 4.6% |
| Money market accounts | 81,162 | 11 | 81,173 | Unrated | 3.3% |
| Total | <u>\$ 1,415,835</u> | <u>\$ 1,047,909</u> | <u>\$ 2,463,744</u> | | <u>100.0%</u> |

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2008

3. DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2008, the Kent County Investment Pool total of \$575,829 and the Michigan Public Power Agency Pool amount of \$414,479 are not rated.

Interest Rate Risk

The City has not adopted a policy that indicates how the City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of Credit Risk

The City limits amounts invested in a single security type or with a single financial institution. This indicates how the City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk

The City has adopted a policy that limits amounts invested with a single financial institution. This will minimize custodial credit risk, which is the risk that in the event of a failure by a counterparty, the City will not be able to recover the value of its investments of collateral securities that are in possession of an outside party. Deposits of the city are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the City. As of June 30, 2008, the City accounts were insured by the FDIC for \$517,128 and the amount of \$5,210,544 was uninsured and uncollateralized.

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2008

4. CAPITAL ASSETS

A summary of changes in capital assets follows:

| | Balance July 1, 2007 | Additions | Disposals | Balance June 30, 2008 |
|---|-------------------------|---------------------|-------------------|--------------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 568,460 | \$ 0 | \$ 0 | \$ 568,460 |
| Construction in progress | 137,809 | 0 | 137,809 | 0 |
| Total capital assets, not being depreciated | 706,269 | 0 | 137,809 | 568,460 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 1,050,338 | 31,281 | 0 | 1,081,619 |
| Buildings | 5,694,000 | 234,449 | 0 | 5,928,449 |
| Equipment | 1,608,754 | 77,121 | 0 | 1,685,875 |
| Other improvements | 75,855 | 0 | 0 | 75,855 |
| Total capital assets, being depreciated | 8,428,947 | 342,851 | 0 | 8,771,798 |
| Less accumulated depreciation for: | | | | |
| Land improvements | 131,816 | 31,972 | 0 | 163,788 |
| Buildings | 877,368 | 105,733 | 0 | 983,101 |
| Equipment | 1,315,529 | 61,725 | 0 | 1,377,254 |
| Other improvements | 14,434 | 1,517 | 0 | 15,951 |
| Total accumulated depreciation | 2,339,147 | 200,947 | 0 | 2,540,094 |
| Total capital assets, being depreciated, net | 6,089,800 | 141,904 | 0 | 6,231,704 |
| Governmental activities capital assets, net | \$ 6,796,069 | \$ 141,904 | \$ 137,809 | \$ 6,800,164 |
| Business-type activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 349,838 | \$ 0 | \$ 0 | \$ 349,838 |
| Construction in progress | 684 | 26,662 | 0 | 27,346 |
| Total capital assets, not being depreciated | 350,522 | 26,662 | 0 | 377,184 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 347,386 | 0 | 0 | 347,386 |
| Buildings | 22,535,164 | 141,558 | 17,444 | 22,659,278 |
| Equipment | 1,334,633 | 40,983 | 0 | 1,375,616 |
| Other improvements | 5,242,870 | 0 | 0 | 5,242,870 |
| Total capital assets, being depreciated | 29,460,053 | 182,541 | 17,444 | 29,625,150 |
| Less accumulated depreciation for: | | | | |
| Land improvements | 133,949 | 102,100 | 0 | 236,049 |
| Buildings | 12,181,779 | 861,422 | 16,927 | 13,026,274 |
| Equipment | 1,179,661 | 21,342 | 0 | 1,201,003 |
| Other improvements | 1,796,893 | 9,919 | 0 | 1,806,812 |
| Total accumulated depreciation | 15,292,282 | 994,783 | 16,927 | 16,270,138 |
| Total capital assets, being depreciated, net | 14,167,771 | (812,242) | 517 | 13,355,012 |
| Business-type activities capital assets, net | \$ 14,518,293 | \$ (785,580) | \$ 517 | \$ 13,732,196 |

City of Lowell

Notes to Financial Statements
For the Year Ended June 30, 2008

4. CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions / programs of the primary government as follows:

| | |
|---|--------------------------|
| Governmental activities: | |
| General government | \$ 42,060 |
| Public safety | 87,377 |
| Public works | 19,097 |
| Public services | 50,235 |
| Capital assets held by the government's internal service | |
| Fund are charged to the various functions based on | |
| Their usage of the assets | <u>2,178</u> |
| Total depreciation expense – governmental activities | <u>\$ 200,947</u> |

5. DEFINED BENEFIT PENSION PLAN

Municipal Employees Retirement System of Michigan

The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan providing retirement, death and disability benefits covering full-time City employees. The System is administered by the MERS retirement board. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement Systems of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

The City is required to contribute at an actuarially determined rate; the current rate is from 11.04% to 11.38% of annual covered payroll depending on position. Participating employees are required to contribute from 0% to 6% to the Plan. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the City Council, depending on the MERS program adopted.

City of Lowell

Notes to Financial Statements
For the Year Ended June 30, 2008

5. DEFINED BENEFIT PENSION PLAN (CONTINUED)

For the year ended June 30, 2008, the City's annual pension cost for MERS of \$245,029 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2007 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 4.5% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2007, the date of the latest actuarial valuation, was 30 years.

Municipal Employees Retirement System of Michigan

Three-Year Trend Information

| <u>Year Ended</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|-------------------|--|--|-----------------------------------|
| 2006 | \$ 236,224 | 100% | \$ 0 |
| 2007 | 253,834 | 100% | 0 |
| 2008 | 245,029 | 100% | 0 |

Schedule of Funding Progress

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets (a)</u> | <u>Actuarial Accrued Liability (AAL) Entry Age (b)</u> | <u>Unfunded AAL (UAAL) (b-a)</u> | <u>Funded Ratio Total</u> | <u>Covered Payroll (c)</u> | <u>UAAL as a Percentage Payroll ((b-a)/c)</u> |
|---|--|--|--|-----------------------------------|------------------------------------|---|
| 12/31/05 | 6,411,153 | 8,761,561 | 2,350,408 | 73% | 2,101,193 | 112% |
| 12/31/06 | 6,949,856 | 9,308,404 | 2,358,548 | 75% | 2,172,313 | 109% |
| 12/31/07 | 7,565,361 | 9,801,845 | 2,236,484 | 77% | 2,092,613 | 107% |

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2008

6. INDIVIDUAL FUND INTERFUND RECEIVABLES AND PAYABLES

Individual fund interfund receivable and payable balances at June 30, 2008 are as follows:

| <u>Due from Fund</u> | <u>General Fund</u> | <u>Nonmajor</u> |
|----------------------|---------------------|-----------------|
| Airport | \$ 15,622 | \$ 0 |
| Light & Power | 24,348 | 0 |
| Nonmajor | 30,831 | 5,864 |
| TOTAL | \$ 70,801 | \$ 5,864 |

7. INTERFUND TRANSACTIONS

Transfers in and out for the year ended June 30, 2008 are as follows:

| | <u>Transfer in:</u> | | |
|---------------|---------------------|-------------------|-------------------|
| | <u>General Fund</u> | <u>Nonmajor</u> | <u>Total</u> |
| Transfer out: | | | |
| General Fund | \$ 0 | \$ 398,050 | \$ 398,050 |
| Nonmajor | 10,831 | 45,000 | 55,831 |
| | <u>\$ 10,831</u> | <u>\$ 443,050</u> | <u>\$ 453,881</u> |

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2008

8. LONG-TERM OBLIGATIONS

The following is a summary of debt transactions of the City for the year ended June 30, 2008:

| | Balance July 1, 2007 | Additions | Deletions | Balance June 30, 2008 | Due Within One Year |
|---|----------------------------|---------------|----------------|-----------------------------|---------------------------|
| Governmental Long-Term Debt | | | | | |
| Primary Government: | | | | | |
| 4.20% - 5.00% Building Authority Bonds, series 1999; payable in annual amounts of \$35,000 to \$65,000 through 2010. | 105,000 | 0 | 35,000 | 70,000 | 35,000 |
| 2.00% - 4.80% Transportation Fund Improvement Bonds, series, 2002; payable in annual amounts of \$25,000 to \$45,000 through 2017. | 395,000 | 0 | 30,000 | 365,000 | 30,000 |
| 3.25% - 5.12% Building Authority Bonds, series 2002; payable in annual amounts of \$60,000 to \$300,000 through 2032. | 4,665,000 | 0 | 60,000 | 4,605,000 | 60,000 |
| Municipal Lease--Installment Purchase agreement for police cruisers payable in annual amounts of \$13,200 through 2010. | 0 | 39,600 | 13,200 | 26,400 | 13,200 |
| 3.50%-4.25% Transportation Fund Improvement Bonds, series, 2005; payable in annual amounts of \$15,000 to \$25,000 through 2019. | 285,000 | 0 | 15,000 | 270,000 | 20,000 |
| Act 99 Installment Purchase, Series 2005 for a fire vehicle in annual amounts of \$16,133 through 2008. | 16,133 | 0 | 16,133 | 0 | 0 |
| Municipal Lease--Installment Purchase agreement for cemetery department truck payable in annual amounts of \$7,175 to \$8,083 through 2012. | 0 | 37,691 | 0 | 37,691 | 7,198 |
| Vested Sick and Vacation pay | 63,788 | 17,116 | 0 | 80,904 | 0 |
| Total Governmental Long-Term Debt | 5,529,921 | 94,407 | 169,333 | 5,454,995 | 165,398 |

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2008

8. LONG-TERM OBLIGATIONS (CONTINUED)

| | Balance July 1, 2007 | Additions | Deletions | Balance June 30, 2008 | Due Within One Year |
|---|-------------------------|-------------------|-------------------|--------------------------|------------------------|
| Enterprise Funds | | | | | |
| Wastewater Fund | | | | | |
| 4.40% - 5.40% Sanitary Sewer Systems Revenue Refunding Bonds, series 1993; payable in annual amounts of \$30,000 to \$175,000 through 2012. | 810,000 | 0 | 145,000 | 665,000 | 155,000 |
| Light and Power Fund | | | | | |
| 3.00% - 5.00% Electric Supply System Revenue Bonds, series 2002; payable in semi-annual amounts of \$130,000 to \$350,000 through 2027. | 4,760,000 | 0 | 145,000 | 4,615,000 | 150,000 |
| Water Fund | | | | | |
| 6.25% Special Assessment Water Bonds, series 1993A; payable in annual amounts of \$3,000 to \$10,000 through 2008. | 4,000 | 0 | 4,000 | 0 | 0 |
| 6.30% - 7.50% Special Assessment Water Bonds, series 1994A; payable in annual amounts of \$5,000 to \$10,000 through 2014. | 70,000 | 0 | 10,000 | 60,000 | 10,000 |
| 3.00% - 5.00% Water Revenue Refunding Bonds, series 2002; payable in annual amount of \$100,000 to \$195,000 through 2019. | 1,835,000 | 0 | 135,000 | 1,700,000 | 140,000 |
| Municipal Lease—Installment purchase agreement for water department vehicle payable in annual amounts of \$7,802 to \$8,789 through 2012. | 0 | 40,983 | 0 | 40,983 | 7,827 |
| Airport Fund | | | | | |
| 5.50% Michigan Aeronautics Commission Airport Loan, series 2001; payable in annual amounts of \$5,437 to \$8,800 through 2011. | 32,550 | 0 | 7,497 | 25,053 | 7,909 |
| Sub-Total Enterprise Funds | 7,511,550 | 40,983 | 446,497 | 7,106,036 | 470,736 |
| Unamortized discount/issuance cost | 313,039 | 0 | 25,923 | 287,116 | 0 |
| Total Enterprise Funds | 7,198,511 | 40,983 | 420,574 | 6,818,920 | 470,736 |
| Total Long-Term Obligations - Primary Government | 12,728,432 | 118,274 | 589,907 | 12,256,799 | 636,134 |
| Component Unit | | | | | |
| 5.50% - 6.65% DDA Michigan Municipal Bond Authority, series 1994F; payable in annual amount of \$50,000 to \$100,000. | 570,000 | 0 | 70,000 | 500,000 | 70,000 |
| 4.00% - 5.35% DDA General Obligation Limited Tax Development Bonds, series 1999; payable in annual payments of \$55,000 to \$110,000. | 650,000 | 0 | 80,000 | 570,000 | 85,000 |
| Total Component Unit | 1,220,000 | 0 | 150,000 | 1,070,000 | 155,000 |
| Total Long-Term Obligations - Reporting Entity | <u>\$ 13,948,432</u> | <u>\$ 118,274</u> | <u>\$ 739,907</u> | <u>\$ 13,326,799</u> | <u>\$ 791,134</u> |

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2008

8. LONG-TERM OBLIGATIONS (CONTINUED)

The governmental long-term debt is serviced by the general fund except for the transportation bonds which are serviced by the Major Street Fund. Remaining debt is serviced by the funds indicated above.

The annual requirements, excluding accrued employee benefits, to maturity on the total long-term obligations outstanding at June 30, 2008 are as follows:

| | Governmental Long-Term Debt | | Enterprise Long-Term Debt | | Component Unit Long-Term Debt | |
|-----------|--------------------------------|---------------------|------------------------------|---------------------|----------------------------------|-------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2009 | 165,398 | 255,506 | 470,736 | 325,717 | 155,000 | 57,767 |
| 2010 | 165,375 | 249,130 | 496,146 | 305,897 | 165,000 | 48,795 |
| 2011 | 117,466 | 242,246 | 506,918 | 283,825 | 170,000 | 39,178 |
| 2012 | 182,769 | 237,489 | 523,447 | 260,542 | 175,000 | 29,139 |
| 2013 | 198,083 | 230,041 | 363,789 | 236,500 | 195,000 | 18,283 |
| 2014-2018 | 1,085,000 | 1,016,274 | 1,830,000 | 937,871 | 210,000 | 6,268 |
| 2019-2023 | 1,160,000 | 755,761 | 1,335,000 | 554,820 | 0 | 0 |
| 2024-2028 | 1,100,000 | 484,375 | 1,580,000 | 205,500 | 0 | 0 |
| 2029-2032 | 1,200,000 | 153,750 | 0 | 0 | 0 | 0 |
| | <u>\$ 5,374,091</u> | <u>\$ 3,624,572</u> | <u>\$ 7,106,036</u> | <u>\$ 3,110,672</u> | <u>\$ 1,070,000</u> | <u>\$ 199,430</u> |

The City is a party to certain agreements relating to Industrial Revenue and Economic Development bond issues. The agreements provide that the bonds are self-liquidating revenue bonds and are no obligation to the City. The bonds are collateralized by the assets constructed with bond proceeds and are guaranteed by the recipient corporations. The amount of such bonds outstanding at June 30, 2008, was approximately \$1,520,000.

9. LITIGATION

In the normal course of its activities, the City has become a party in various legal actions, including property tax assessment appeals. Management of the City is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City and, therefore, has not reflected loss reserves in the financial statements.

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2008

10. JOINT VENTURE

The City entered into a joint venture, the Michigan Public Power Agency (MPPA), with 13 other municipal electric systems. The MPPA was formed to undertake the planning financing, development, acquisition, construction, improvement, operation and maintenance of projects to supply electric power and energy for present or future needs of its members. Each MPPA member is a municipal corporation organized under the laws of the State of Michigan and owns and operates a municipal electric system. Effective in October 2005, the members of the power pool (one of MPPA's programs) gave their required five year notice of withdrawal from the pool which will cease on December 31, 2010. Lowell Light and Power is currently in negotiations along with other members of the pool to form a new contract for the sale and purchase of power. Complete financial statements for the Michigan Public Power Agency can be obtained from the administrative offices at 809 Centennial Way, Lansing, Michigan 48917.

Under the joint venture, the City has entered into Power Sales Contracts and Project Support Contracts. These contracts provide for the City to purchase from MPPA 1.24% of the energy generated by MPPA's 37.22% ownership in Detroit Edison's Belle River Unit No.1, which became operational in August 1984, 11.86% of MPPA's 4.80% ownership in Consumers Energy's Campbell Unit No. 3, which became operational in September 1980 and 5.63% of the energy generated by MPPA's 100% ownership in CT Project No. 1 (50 mw rated simple cycle combustion turbine generating unit and ancillary support facilities located in Kalkaska, Michigan) which became operational in 2004. These contracts required the City to purchase approximately 3, 4.5 and 2.8 megawatts of power, respectively.

For the year ended June 30, 2008, the City recognized expenses totaling \$2,710,278 under the terms of the contract which represented approximately \$792,421 for fixed operating costs, \$977,907 for debt service and \$939,950 for the purchase of power. Accounts payable to MPPA totaled \$300,508 at June 30, 2008. Under the terms of its contracts, the City must make minimum annual payments equal to its share of debt service and its share of the fixed operating costs of Detroit Edison's Belle River No. 1, Consumers Energy's Campbell Unit No. 3 and CT Project No. 1. Future operating costs are estimated based on 2006 costs adjusted for inflation.

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2008

10. JOINT VENTURE (CONTINUED)

A summary of future contract payments with MPPA is as follows:

| | Belle River | | Campbell | | Combustion Turbine | | Total |
|-----------|---------------------|---------------------|---------------------|---------------------|---------------------|--------------------|----------------------|
| | Debt Service | Fixed Operating | Debt Service | Fixed Operating | Debt Service | Fixed Operating | |
| 2009 | 340,905 | 189,991 | 493,079 | 601,024 | 143,634 | 25,180 | 1,793,813 |
| 2010 | 340,911 | 195,691 | 411,877 | 619,054 | 143,672 | 25,935 | 1,737,140 |
| 2011 | 340,962 | 201,561 | 413,917 | 637,626 | 143,877 | 26,713 | 1,764,656 |
| 2012 | 340,960 | 207,608 | 415,069 | 656,755 | 143,675 | 27,514 | 1,791,581 |
| 2013 | 340,918 | 213,836 | 415,637 | 676,457 | 143,728 | 28,340 | 1,818,916 |
| 2014-2018 | 1,704,679 | 1,169,346 | 1,174,140 | 696,751 | 718,586 | 154,973 | 5,618,475 |
| 2019-2023 | 0 | 0 | 0 | 0 | 718,634 | 179,657 | 898,291 |
| 2024-2027 | 0 | 0 | 0 | 0 | 574,904 | 164,119 | 739,023 |
| | <u>\$ 3,409,335</u> | <u>\$ 2,178,033</u> | <u>\$ 3,323,719</u> | <u>\$ 3,887,667</u> | <u>\$ 2,730,710</u> | <u>\$ 632,431</u> | <u>\$ 16,161,895</u> |

Debt Service requirements expire in the years 2014, 2018 and 2027 for the Campbell, Belle River and Combustion Turbine Projects, respectively. The above amounts include estimated fixed operating costs for the same period as the Debt Service. The contracts for the City's commitment for fixed operating costs to extend beyond these dates are dependent upon the use of the facilities.

The joint venture is a result of an ongoing financial responsibility. The City did not have an initial equity interest and does not participate in net income or losses.

11. PROCEEDS FROM SALE OF CABLE TELEVISION AND ESTABLISHMENT OF LCTV ENDOWMENT FUND

During the 2006-07 fiscal year, the City sold the Cable TV unit to a private party. On October 1, 2007, The City Council approved a resolution to endow the proceeds from the sale of the Cable TV unit with the Grand Rapids Community Foundation. The Grand Rapids Community Foundation will distribute earnings from the fund to the City. The City has established the LCTV Endowment Fund to account for the receipt of the earnings and any subsequent distributions. As of June 30, 2008, there was \$82,611 of earnings available to spend. No distributions were made during 2008.

General Fund

CITY OF LOWELL
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

| | AMENDED BUDGET | ACTUAL | VARIANCE FAVORABLE (UNFAVORABLE) |
|-----------------------------------|-------------------|------------------|--|
| REVENUES | | | |
| TAXES | | | |
| Property taxes | \$ 1,481,403 | \$ 1,484,546 | \$ 3,143 |
| Payment in lieu of taxes | 256,886 | 233,966 | (22,920) |
| Penalties and interest | 5,000 | 12,824 | 7,824 |
| Trailer fees | 900 | 630 | (270) |
| Industrial facility tax | 12,300 | 12,247 | (53) |
| TOTAL TAXES | <u>1,756,489</u> | <u>1,744,213</u> | <u>(12,276)</u> |
| INTERGOVERNMENTAL | | | |
| STATE REVENUE | | | |
| Sales tax | 397,855 | 393,143 | (4,712) |
| Liquor licenses | 3,300 | 3,320 | 20 |
| Other | 1,100 | 1,857 | 757 |
| TOTAL STATE REVENUE | <u>402,255</u> | <u>398,320</u> | <u>(3,935)</u> |
| CHARGES FOR SERVICES | | | |
| Fire protection | 70,000 | 80,198 | 10,198 |
| Cemetery openings | 8,500 | 8,848 | 348 |
| Other charges and fees | 41,217 | 47,524 | 6,307 |
| TOTAL CHARGES FOR SERVICES | <u>119,717</u> | <u>136,570</u> | <u>16,853</u> |
| INVESTMENT INCOME | <u>15,200</u> | <u>16,310</u> | <u>1,110</u> |
| OTHER INCOME | | | |
| Sales-other | 56,000 | 60,181 | 4,181 |
| Contributions/local grants | 172,037 | 143,835 | (28,202) |
| Miscellaneous | 203,187 | 214,484 | 11,297 |
| TOTAL OTHER INCOME | <u>431,224</u> | <u>418,500</u> | <u>(12,724)</u> |
| TOTAL REVENUES | <u>2,724,885</u> | <u>2,713,913</u> | <u>(10,972)</u> |
| EXPENDITURES | | | |
| General Government | | | |
| Legislative Council | 13,820 | 14,969 | (1,149) |
| Administrative | | | |
| City Manager | 88,412 | 84,516 | 3,896 |
| Elections | 5,990 | 5,212 | 778 |
| Attorney | 22,000 | 23,365 | (1,365) |
| Assessor | 42,408 | 39,831 | 2,577 |
| General office | 143,973 | 133,447 | 10,526 |
| Treasurer | 129,745 | 129,757 | (12) |
| Library | 50,667 | 60,104 | (9,437) |
| Planning | 6,710 | 5,578 | 1,132 |
| TOTAL ADMINISTRATIVE | <u>489,905</u> | <u>481,810</u> | <u>8,095</u> |
| TOTAL GENERAL GOVERNMENT | <u>503,725</u> | <u>496,779</u> | <u>6,946</u> |

CITY OF LOWELL
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

| | AMENDED BUDGET | ACTUAL | VARIANCE FAVORABLE (UNFAVORABLE) |
|--------------------------------------|-------------------|-----------|--|
| EXPENDITURES (continued) | | | |
| Public Safety | | | |
| Police | 849,260 | 845,363 | 3,897 |
| Fire | 299,094 | 283,290 | 15,804 |
| Ambulance | 2,000 | 0 | 2,000 |
| TOTAL PUBLIC SAFETY | 1,150,354 | 1,128,653 | 21,701 |
| Public Services | | | |
| City Hall | 56,500 | 62,917 | (6,417) |
| Public works | 147,587 | 158,384 | (10,797) |
| Cemetery | 80,659 | 81,557 | (898) |
| Engineering | 4,600 | 5,096 | (496) |
| Parks | 148,613 | 172,312 | (23,699) |
| Refuse collection | 75,000 | 87,714 | (12,714) |
| Sidewalks | 13,789 | 17,751 | (3,962) |
| TOTAL PUBLIC SERVICES | 526,748 | 585,731 | (58,983) |
| Debt Service | | | |
| Principal | 29,333 | 29,333 | 0 |
| Interest | 571 | 571 | 0 |
| TOTAL DEBT SERVICE | 29,904 | 29,904 | 0 |
| Other functions | | | |
| Other services and charges | 69,650 | 69,254 | 396 |
| TOTAL EXPENDITURES | 2,280,381 | 2,310,321 | (29,940) |
| REVENUES OVER (UNDER) EXPENDITURES | 444,504 | 403,592 | (40,912) |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | 8,000 | 10,831 | 2,831 |
| Transfers (out) | (398,050) | (398,050) | 0 |
| Capital lease proceeds | 39,600 | 39,600 | 0 |
| TOTAL OTHER FINANCING SOURCES (USES) | (350,450) | (347,619) | 2,831 |
| NET CHANGE IN FUND BALANCES | \$ 94,054 | 55,973 | \$ (38,081) |
| FUND BALANCES, BEGINNING OF YEAR | | 35,096 | |
| FUND BALANCES, END OF YEAR | | \$ 91,069 | |

CITY OF LOWELL

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET**

June 30, 2008

| ASSETS | SPECIAL REVENUE | | | DEBT SERVICE | PERMANENT | Total |
|--|------------------------|----------------------|-------------------------------------|---------------------|--------------------------------|-------------------|
| | Major Streets | Local Streets | Historic District Commission | Debt Service | Cemetery Perpetual Care | |
| Cash and pooled investments | \$ 0 | \$ 9,494 | \$ 22,709 | \$ 5,876 | \$ 230,667 | \$ 268,746 |
| Investments | 0 | 0 | 0 | 0 | 70,268 | 70,268 |
| Due from other funds | 0 | 5,864 | 0 | 0 | 0 | 5,864 |
| Due from other governments | 31,221 | 11,475 | 0 | 0 | 0 | 42,696 |
| Total Assets | \$ 31,221 | \$ 26,833 | \$ 22,709 | \$ 5,876 | \$ 300,935 | \$ 387,574 |
| LIABILITIES & FUND BALANCE | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | 10,868 | \$ 3,745 | \$ 0 | \$ 858 | \$ 0 | \$ 15,471 |
| Accrued liabilities | 6 | 1,800 | 0 | 0 | 0 | 1,806 |
| Due to other funds | 5,864 | 20,000 | 0 | 0 | 10,831 | 36,695 |
| Accrued compensated absences | 168 | 152 | 0 | 0 | 0 | 320 |
| Total liabilities | 16,906 | 25,697 | 0 | 858 | 10,831 | 54,292 |
| Fund balance | | | | | | |
| Reserved | 0 | 0 | 0 | 5,018 | 290,104 | 295,122 |
| Unreserved - undesignated | 14,315 | 1,136 | 22,709 | 0 | 0 | 38,160 |
| Total fund balance | 14,315 | 1,136 | 22,709 | 5,018 | 290,104 | 333,282 |
| Total liabilities and fund equity | \$ 31,221 | \$ 26,833 | \$ 22,709 | \$ 5,876 | \$ 300,935 | \$ 387,574 |

CITY OF LOWELL

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**

FOR THE YEAR ENDED JUNE 30, 2008

| | SPECIAL REVENUE | | | DEBT SERVICE | PERMANENT | |
|---|------------------------|------------------|------------------------------------|-------------------------|-------------------------------|-------------------|
| | Major Streets | Local Streets | Historic District Commission | Debt Service | Cemetery Perpetual Care | Total |
| Revenues | | | | | | |
| Intergovernmental revenues | | | | | | |
| State | \$ 190,033 | \$ 81,890 | \$ 0 | \$ 0 | \$ 0 | \$ 271,923 |
| Investment income | 43 | 0 | 789 | 292 | 17,215 | 18,339 |
| Charges for perpetual care | 0 | 0 | 0 | 0 | 9,350 | 9,350 |
| Miscellaneous/Contributions | 1,082 | 257 | 0 | 0 | 0 | 1,339 |
| Total revenues | 191,158 | 82,147 | 789 | 292 | 26,565 | 300,951 |
| Expenditures | | | | | | |
| Current | | | | | | |
| Highways and streets | 100,565 | 124,797 | 0 | 0 | 0 | 225,362 |
| Public service | 0 | 0 | 7,607 | 0 | 0 | 7,607 |
| Other functions | 0 | 0 | 0 | 2 | 525 | 527 |
| Debt service: | | | | | | |
| Principal | 0 | 45,000 | 0 | 95,000 | 0 | 140,000 |
| Interest and fiscal charges | 0 | 27,716 | 0 | 231,850 | 0 | 259,566 |
| Capital outlay | 31,281 | 0 | 0 | 0 | 0 | 31,281 |
| Total expenditures | 131,846 | 197,513 | 7,607 | 326,852 | 525 | 664,343 |
| Revenues over (under) expenditures | 59,312 | (115,366) | (6,818) | (326,560) | 26,040 | (363,392) |
| Other financing sources (uses) | | | | | | |
| Proceeds from loan | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers in | 0 | 116,500 | 0 | 326,550 | 0 | 443,050 |
| Transfers out | (45,000) | 0 | 0 | 0 | (10,831) | (55,831) |
| Total other financing sources (uses) | (45,000) | 116,500 | 0 | 326,550 | (10,831) | 387,219 |
| Net changes in fund balances | 14,312 | 1,134 | (6,818) | (10) | 15,209 | 23,827 |
| Fund balances, beginning of year | 3 | 2 | 29,527 | 5,028 | 274,895 | 309,455 |
| Fund balances, end of year | \$ 14,315 | \$ 1,136 | \$ 22,709 | \$ 5,018 | \$ 290,104 | \$ 333,282 |

CITY OF LOWELL
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
MAJOR STREETS FUND
FOR THE YEAR ENDED JUNE 30, 2008

| | <u>AMENDED BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE POSITIVE (NEGATIVE)</u> |
|--|---------------------------|----------------------|---|
| REVENUES | | | |
| Intergovernmental revenues: | | | |
| State | \$ 191,733 | \$ 190,033 | \$ (1,700) |
| Investment income | 1,000 | 43 | (957) |
| Miscellaneous | <u>0</u> | <u>1,082</u> | <u>1,082</u> |
| TOTAL REVENUES | <u>192,733</u> | <u>191,158</u> | <u>(1,575)</u> |
| EXPENDITURES | | | |
| Current | | | |
| Administration | 25,801 | 17,031 | 8,770 |
| Winter maintenance | 30,102 | 33,357 | (3,255) |
| Traffic | 14,007 | 14,643 | (636) |
| Maintenance | 53,754 | 35,734 | 18,020 |
| Capital outlay | <u>31,000</u> | <u>31,081</u> | <u>(81)</u> |
| TOTAL EXPENDITURES | <u>154,664</u> | <u>131,846</u> | <u>22,818</u> |
| REVENUES OVER (UNDER) EXPENDITURES | 38,069 | 59,312 | 21,243 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | 0 | 0 | 0 |
| Transfers out | <u>(45,000)</u> | <u>(45,000)</u> | <u>0</u> |
| NET CHANGES IN FUND BALANCES | <u>\$ (6,931)</u> | 14,312 | <u>\$ 21,243</u> |
| FUND BALANCES, BEGINNING OF YEAR | | <u>3</u> | |
| FUND BALANCES, END OF YEAR | | <u>\$ 14,315</u> | |

CITY OF LOWELL
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
LOCAL STREETS FUND
FOR THE YEAR ENDED JUNE 30, 2008

| | <u>AMENDED BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE POSITIVE (NEGATIVE)</u> |
|---|---------------------------|-----------------|---|
| REVENUES | | | |
| Intergovernmental revenues: | | | |
| State | \$ 73,582 | \$ 81,890 | \$ 8,308 |
| Investment income | 100 | 0 | (100) |
| Miscellaneous | <u>0</u> | <u>257</u> | <u>257</u> |
| TOTAL REVENUES | <u>73,682</u> | <u>82,147</u> | <u>8,465</u> |
| EXPENDITURES | | | |
| Current | | | |
| Administration | 17,404 | 17,068 | 336 |
| Winter maintenance | 44,587 | 47,939 | (3,352) |
| Traffic | 7,618 | 7,848 | (230) |
| Maintenance | 38,114 | 51,942 | (13,828) |
| Debt service: | | | |
| Principal | 45,000 | 45,000 | 0 |
| Interest and fiscal charges | <u>26,115</u> | <u>27,716</u> | <u>(1,601)</u> |
| TOTAL EXPENDITURES | <u>178,838</u> | <u>197,513</u> | <u>(18,675)</u> |
| REVENUES OVER (UNDER) EXPENDITURES | (105,156) | (115,366) | (10,210) |
| OTHER FINANCING SOURCES (USES) | | | |
| Proceeds from loan | 0 | 0 | 0 |
| Transfers in | <u>116,500</u> | <u>116,500</u> | <u>0</u> |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>116,500</u> | <u>116,500</u> | <u>0</u> |
| NET CHANGES IN FUND BALANCES | <u>\$ 11,344</u> | 1,134 | <u>\$ (10,210)</u> |
| FUND BALANCES, BEGINNING OF YEAR | | <u>2</u> | |
| FUND BALANCES, END OF YEAR | | <u>\$ 1,136</u> | |

CITY OF LOWELL
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
HISTORIC DISTRICT COMMISSION FUND
FOR THE YEAR ENDED JUNE 30, 2008

| | AMENDED BUDGET | ACTUAL | VARIANCE POSITIVE (NEGATIVE) |
|----------------------------------|--------------------|-------------------------|------------------------------------|
| REVENUES | | | |
| Investment income | \$ 0 | \$ 789 | \$ 789 |
| Miscellaneous | <u>0</u> | <u>0</u> | <u>0</u> |
| TOTAL REVENUES | <u>0</u> | <u>789</u> | <u>789</u> |
| EXPENDITURES | | | |
| Current | | | |
| Public services | <u>0</u> | <u>7,607</u> | <u>(7,607)</u> |
| TOTAL EXPENDITURES | <u>0</u> | <u>7,607</u> | <u>(7,607)</u> |
| NET CHANGES IN FUND BALANCES | <u><u>\$ 0</u></u> | (6,818) | <u><u>\$ (6,818)</u></u> |
| FUND BALANCES, BEGINNING OF YEAR | | <u>29,527</u> | |
| FUND BALANCES, END OF YEAR | | <u><u>\$ 22,709</u></u> | |

CITY OF LOWELL
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF NET ASSETS

June 30, 2008

| ASSETS | Data Processing | Equipment | Total |
|---|----------------------------|------------------|------------------|
| Current assets | | | |
| Cash and pooled investments | \$ 2,225 | \$ 37,123 | \$ 39,348 |
| Accounts receivable | 0 | 7,127 | 7,127 |
| Inventory | 0 | 7,413 | 7,413 |
| Total current assets | 2,225 | 51,663 | 53,888 |
| Capital assets | | | |
| Machinery and equipment | 145,227 | 701,159 | 846,386 |
| Less: | | | |
| Accumulated depreciation | (145,227) | (663,468) | (808,695) |
| Net capital assets | 0 | 37,691 | 37,691 |
| Total assets | 2,225 | 89,354 | 91,579 |
| | | | |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable | 482 | 1,469 | 1,951 |
| Accrued liabilities | 0 | 2,229 | 2,229 |
| Accrued compensated absences | 0 | 2,760 | 2,760 |
| Current portion of capital lease | 0 | 7,198 | 7,198 |
| Total current liabilities | 482 | 13,656 | 14,138 |
| Non-current liabilities | | | |
| Capital lease payable | 0 | 30,493 | 30,493 |
| Total non-current liabilities | 0 | 30,493 | 30,493 |
| Total liabilities | 482 | 44,149 | 44,631 |
| | | | |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 0 | 0 | 0 |
| Unrestricted | 1,743 | 45,205 | 46,948 |
| Total net assets | \$ 1,743 | \$ 45,205 | \$ 46,948 |

CITY OF LOWELL
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2008

| | <u>Data Processing</u> | <u>Equipment</u> | <u>Total</u> |
|--|----------------------------|-------------------------|-------------------------|
| Operating revenues | | | |
| Charges for services | \$ 15,040 | \$ 156,163 | \$ 171,203 |
| Miscellaneous income | 0 | 12,992 | 12,992 |
| Total operating revenues | <u>15,040</u> | <u>169,155</u> | <u>184,195</u> |
| Operating expenses | | | |
| Personnel services | 0 | 81,400 | 81,400 |
| Supplies | 1,766 | 45,337 | 47,103 |
| Services and other charges | 14,572 | 18,784 | 33,356 |
| Depreciation and amortization | 0 | 2,178 | 2,178 |
| Miscellaneous | 3 | 0 | 3 |
| Total operating expenses | <u>16,341</u> | <u>147,699</u> | <u>164,040</u> |
| Operating income (loss) | <u>(1,301)</u> | <u>21,456</u> | <u>20,155</u> |
| Non-operating revenues (expenses) | | | |
| Interest income | 18 | 1,003 | 1,021 |
| Total non-operating revenues (expenses) | <u>18</u> | <u>1,003</u> | <u>1,021</u> |
| Income (loss) before transfers | <u>(1,283)</u> | <u>22,459</u> | <u>21,176</u> |
| Transfers to other funds | 0 | 0 | 0 |
| Change in net assets | <u>(1,283)</u> | <u>22,459</u> | <u>21,176</u> |
| Net assets, beginning of year | <u>3,026</u> | <u>22,746</u> | <u>25,772</u> |
| Net assets, end of year | <u><u>\$ 1,743</u></u> | <u><u>\$ 45,205</u></u> | <u><u>\$ 46,948</u></u> |

CITY OF LOWELL
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008

| | <u>DATA PROCESSING</u> | <u>EQUIPMENT</u> | <u>TOTAL</u> |
|--|----------------------------|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from interfund services provided | \$ 15,040 | \$ 167,889 | \$ 182,929 |
| Payments to employees | 0 | (81,799) | (81,799) |
| Payments to suppliers | (16,871) | (67,132) | (84,003) |
| Net cash provided by (used in) operating activities | (1,831) | 18,958 | 17,127 |
| CASH FLOWS FROM NON-CAPITAL FINANCING | | | |
| Net cash provided by (used in) non-capital financing | 0 | 0 | 0 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING | | | |
| Acquisitions of capital assets | 0 | (37,691) | (37,691) |
| Proceeds from capital lease financing | 0 | 37,691 | 37,691 |
| Net cash provided by (used in) capital financing | 0 | 0 | 0 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest income | 18 | 1,003 | 1,021 |
| NET INCREASE (DECREASE) IN CASH AND POOLED INVESTMENTS | (1,813) | 19,961 | 18,148 |
| CASH AND POOLED INVESTMENTS, BEGINNING OF YEAR | 4,038 | 17,162 | 21,200 |
| CASH AND POOLED INVESTMENTS, END OF YEAR | <u>\$ 2,225</u> | <u>\$ 37,123</u> | <u>\$ 39,348</u> |
| Reconciliation of operating income (loss) to net cash provided by operating activities | | | |
| Operating income (loss) | \$ (1,301) | \$ 21,456 | \$ 20,155 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities | | | |
| Depreciation | 0 | 2,178 | 2,178 |
| Changes in operating assets and liabilities which provided (used) cash: | | | |
| Accounts receivable | 0 | (1,266) | (1,266) |
| Inventory | 0 | 450 | 450 |
| Accounts payable | (530) | (3,462) | (3,992) |
| Accrued liabilities | 0 | (236) | (236) |
| Compensated absences | 0 | (162) | (162) |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | <u>\$ (1,831)</u> | <u>\$ 18,958</u> | <u>\$ 17,127</u> |

CITY OF LOWELL

PRIVATE PURPOSE TRUSTS COMBINING STATEMENTS OF NET ASSETS

June 30, 2008

| ASSETS | Carr | Lee | Look - Daley | Carr II | Cable TV Endowment | Total |
|-------------------------------|------------------|-------------------|-------------------|------------------|-----------------------|---------------------|
| Cash and pooled investments | \$ 23,523 | \$ 7,636 | \$ 118,056 | \$ 75,884 | \$ 0 | \$ 225,099 |
| Investments | 0 | 203,969 | 843,940 | 0 | 0 | 1,047,909 |
| Accounts Receivable | 0 | 0 | 0 | 0 | 82,611 | 82,611 |
| Total assets | 23,523 | 211,605 | 961,996 | 75,884 | 82,611 | 1,355,619 |
| LIABILITIES | | | | | | |
| Accounts payable | 0 | 0 | 15,000 | 0 | 0 | 15,000 |
| Due to other funds | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Liabilities | 0 | 0 | 15,000 | 0 | 0 | 15,000 |
| NET ASSETS | | | | | | |
| Restricted | 20,833 | 0 | 0 | 0 | 0 | 20,833 |
| Unrestricted board designated | 0 | 205,580 | 889,800 | 75,884 | 0 | 1,171,264 |
| Unrestricted | 2,690 | 6,025 | 57,196 | 0 | 82,611 | 148,522 |
| Total net assets | \$ 23,523 | \$ 211,605 | \$ 946,996 | \$ 75,884 | \$ 82,611 | \$ 1,340,619 |

CITY OF LOWELL
PRIVATE PURPOSE TRUSTS
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2008

| | <u>Carr</u> | <u>Lee</u> | <u>Look - Daley</u> | <u>Carr II</u> | <u>Cable TV Endowment</u> | <u>Total</u> |
|--------------------------------------|------------------------|-------------------------|-------------------------|------------------------|-------------------------------|---------------------------|
| Operating revenues | | | | | | |
| Interest and miscellaneous | <u>\$ 769</u> | <u>26,182</u> | <u>\$ 68,363</u> | <u>\$ 2,299</u> | <u>82,611</u> | <u>\$ 180,224</u> |
| Expenses | | | | | | |
| Other functions | <u>489</u> | <u>34,421</u> | <u>44,382</u> | <u>124</u> | <u>0</u> | <u>79,416</u> |
| Changes in net assets | <u>280</u> | <u>(8,239)</u> | <u>23,981</u> | <u>2,175</u> | <u>82,611</u> | <u>100,808</u> |
| Net assets, beginning of year | <u>23,243</u> | <u>219,844</u> | <u>923,015</u> | <u>73,709</u> | <u>0</u> | <u>1,239,811</u> |
| Net assets, end of year | <u><u>\$23,523</u></u> | <u><u>\$211,605</u></u> | <u><u>\$946,996</u></u> | <u><u>\$75,884</u></u> | <u><u>\$ 82,611</u></u> | <u><u>\$1,340,619</u></u> |

CITY OF LOWELL

AGENCY FUNDS COMBINING STATEMENTS OF NET ASSETS

June 30, 2008

| ASSETS | Current Tax | Trailways | Total |
|-----------------------------|------------------------|------------------|--------------|
| Cash and pooled investments | \$ 0 | \$ 48 | \$ 48 |
| Total assets | 0 | 48 | 48 |
| LIABILITIES | | | |
| Due to other governments | 0 | 0 | 0 |
| Total Liabilities | 0 | 0 | 0 |
| NET ASSETS | | | |
| Unrestricted | 0 | 48 | 48 |
| Total net assets | \$ 0 | \$ 48 | \$ 48 |

See accompanying notes to financial statements.

CITY OF LOWELL

DOWNTOWN DEVELOPMENT AUTHORITY COMBINING STATEMENTS OF NET ASSETS

June 30, 2008

| ASSETS | General Fund | Adjustments | Statement of Net Assets |
|---|-------------------|-------------------|-------------------------------|
| Cash and pooled investments | 309,151 | \$ 0 | \$ 309,151 |
| Capital assets | | | |
| Land | 0 | 67,876 | 67,876 |
| Property, Plant, Equipment | 0 | 824,026 | 824,026 |
| Total Assets | \$ 309,151 | 891,902 | 1,201,053 |
| LIABILITIES & FUND BALANCE | | | |
| Liabilities | | | |
| Accounts payable | \$ 4,878 | 0 | 4,878 |
| Accrued liabilities | 500 | 2,550 | 3,050 |
| Bonds payable short-term | 0 | 155,000 | 155,000 |
| Bonds payable long-term | 0 | 915,000 | 915,000 |
| Total liabilities | 5,378 | 1,072,550 | 1,077,928 |
| Fund balance | | | |
| Fund balance - undesignated | 303,773 | (303,773) | 0 |
| Total liabilities and fund equity | \$ 309,151 | 768,777 | 1,077,928 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | | (178,098) | (178,098) |
| Unrestricted | | 301,223 | 301,223 |
| Total net assets (deficit) | | \$ 123,125 | \$ 123,125 |

CITY OF LOWELL
DOWNTOWN DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES/NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2008

| | GENERAL FUND | ADJUSTMENTS | STATEMENT OF NET ASSETS |
|--|-------------------|---------------------|-------------------------------|
| REVENUES | | | |
| Taxes | \$ 535,985 | \$ 0 | \$ 535,985 |
| Interest | 14,214 | 0 | 14,214 |
| Other | 0 | 0 | 0 |
| TOTAL REVENUES | <u>550,199</u> | <u>0</u> | <u>550,199</u> |
| EXPENDITURES | | | |
| General Government | 258,180 | 30,580 | 288,760 |
| Debt service: | | | |
| Principal retirement | 150,000 | (150,000) | 0 |
| Interest and fiscal charges | 66,440 | (365) | 66,075 |
| Capital outlay | 22,000 | (22,000) | 0 |
| TOTAL EXPENDITURES | <u>496,620</u> | <u>(141,785)</u> | <u>354,835</u> |
| REVENUES OVER (UNDER) EXPENDITURES | 53,579 | (53,579) | 0 |
| NET CHANGE IN FUND BALANCE NET ASSETS | 0 | 195,364 | 195,364 |
| FUND BALANCE/NET ASSETS, BEGINNING OF YEAR | <u>250,194</u> | <u>(322,433)</u> | <u>(72,239)</u> |
| FUND BALANCE/NET ASSETS, END OF YEAR | <u>\$ 303,773</u> | <u>\$ (180,648)</u> | <u>\$ 123,125</u> |

Combining and Individual Fund Financial Statements and Schedules

Internal Control and Compliance

**Report on Internal Control over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

Honorable Mayor and
Members of the City Council
Lowell, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Lowell, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the City of Lowell, Michigan's basic financial statements and have issued our report thereon dated December 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Lowell, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Lowell, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Lowell, Michigan's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Lowell, Michigan's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Lowell, Michigan's financial statements that is more than inconsequential will not be prevented or detected by the City of Lowell, Michigan's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Lowell, Michigan's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lowell, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclose no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, management, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Biggs, Hausserman, Thompson & Dickinson, P.C.
Certified Public Accountants
December 29, 2008



To the City Council
City of Lowell
Lowell, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lowell for the year ended June 30, 2008, and have issued our report thereon dated December 29, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated September 3, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of City of Lowell. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of City of Lowell's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on December 1, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Lowell are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were management's estimated lives of capital assets and their estimate of the liability of the payout of employee compensated absences. We evaluated the key factors and assumptions used to develop the estimated life span of capital assets and the estimated value of compensated absences in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 29, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the City Council and management of City of Lowell and is not intended to be and should not be used by anyone other than these specified parties.

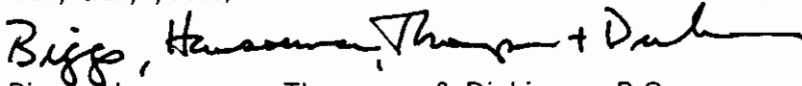
Comments and Recommendations

During 2004, the Governmental Accounting Standards Board (GASB) issued GASBS No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, and GASBS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. These statements supercede the previous guidance on other postemployment benefits (OPEB) contained in GASBS Nos. 12, 26, and 27.

GASBS No. 43 and 45 become effective for the City of Lowell for the fiscal year that began July 1, 2008. The City currently has a post retirement health benefit plan for retirees of the City. The City will be required to recognize the actuarially determined liability for OPEB in the Government-Wide and Enterprise Fund financial statements.

There is no requirement to fund these liabilities. The City should evaluate from time to time whether it wants to begin funding this benefit.

Very truly yours,

A handwritten signature in black ink, appearing to read "Biggs, Hausserman, Thompson & Dickinson", written over the printed name of the law firm.

Biggs, Hausserman, Thompson & Dickinson, P.C.

December 29, 2008